Federal Court Cour fédérale

Date: 20241011

Docket: T-1380-13

Citation: 2024 FC 1195

Ottawa, Ontario, October 11, 2024

PRESENT: The Honourable Mr. Justice Lafrenière

BETWEEN:

**GROUP III INTERNATIONAL LTD.,
HOLIDAY GROUP INC. AND
WENGER S.A.**

Applicants

and

**TRAVELWAY GROUP
INTERNATIONAL LTD.**

Respondent

PUBLIC INTERIM REPORT ON REFERENCE

(Public version of confidential interim report issued to the parties July 26, 2024)

I. Overview

[1] After a long and somewhat convoluted history of litigation between the parties, the Federal Court of Appeal granted an accounting of profits by way of reference under Rule 153 of

the *Federal Courts Rules*, SOR/98-106 [*Rules*]: *Group III International Ltd et al v Travelway Group International Ltd*, 2020 FCA 210 at para 48 [FCA 2020].

[2] In this interim report, I refer to the Applicants, Group III International Ltd., Holiday Group Inc. [Holiday] and Wenger S.A. collectively as Wenger (in the singular) and the Respondent, Travelway Group International Ltd. as Travelway.

[3] A reference hearing was held for the purpose of quantifying the profits made by Travelway from its sale of luggage, bags and other travel accessories [the Infringing Products] that were found to have been passed off as those of Wenger.

[4] The parties and their accounting experts agree on Travelway's revenues from the sales of the Infringing products. They also agree on the costs of goods sold [COGS] incurred by Travelway to produce the Infringing Products. The parties have also agreed on the calculation of prejudgment interest, applying an agreed upon rate to the judgment amount up to the date of judgment under s. 36(3) of the *Federal Courts Act*, RSC 1985, c F-7. However, they disagree on the customer allowance data (i.e. credit memo discounts) as well as further deductions referred to as "omitted and miscellaneous costs" [O&M costs], resulting in a disagreement on the gross profits amounts. The parties and their experts also part ways or differ on various deductions for direct (incremental) costs, the applicability of the full costs method and deductions for overhead costs, and the applicability of any reduction of profits for "replaced sales", described later in this report. Apart from these issues, there is a major dispute between the parties as to the implications of the Federal Court of Appeal's passing off findings that gave rise to the present reference.

[5] I will first provide some background information to put this reference in context before turning to my analysis of the issues raised.

II. Procedural History

[6] The history and facts of this case have been thoroughly canvassed in the decisions of the Federal Court and the Federal Court of Appeal that lead up to this reference and there is accordingly no need to repeat them here. I shall therefore limit myself to a brief overview.

[7] Wenger S.A. is a Swiss company that has been associated with the famous Swiss army knife for over 100 years. As early as the 1970s, Wenger adopted a logo comprised of a cross in a rounded quadrilateral and surrounded by an inlaid border [the Wenger Cross Logo]. The Wenger Cross Logo, depicted below, is typically presented featuring a white or metallic cross and border, set against a black or red background.

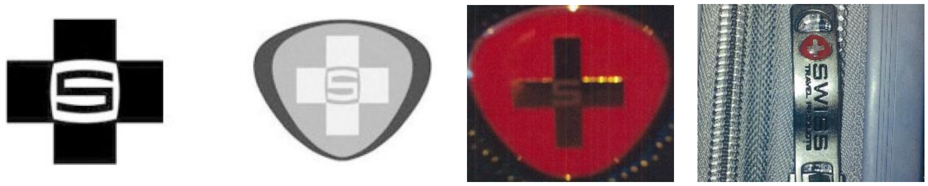
[8] In Canada, Wenger registered three trademarks [the Wenger Marks] that incorporate this logo for use in association with luggage and bags, depicted below.

SWISSGEAR WENGER

[9] Travelway is a Canadian company focused on travel founded in the 1970s. It designs, manufactures, and distributes luggage, travel accessories and other non-luggage products, such as backpacks, tote bags and hip bags. Luggage products are generally suitcases. These have been sold over time in either hard side, soft side, or hybrid (a combination of hard side and soft side), and typically are sold in three different sizes as well as a variety of styles and colours. Travelway's products are found in a variety of retailers in Canada, such as Walmart Canada Corp. [Walmart], Costco Wholesale [Costco], Canadian Tire, and Bentley.

[10] In 2013, Wenger brought an application against Travelway under the *Trade-marks Act*, now the *Trademarks Act*, RSC, 1985, c. T-13 [*TMA*]. Wenger objected to the use by Travelway of two registered trademarks, TMA740206 and TMA740200 (later struck from the Register, as discussed below), for use in connection with luggage and related products, as well as modified versions of the trademarks it began using in 2012. The first version renders the letter "S" difficult to see [Disappearing S Mark], and the second one omits the "S" altogether [Missing S Mark]. The two registered trademarks and a sample of the two variants [the Infringing Marks] are depicted below from left to right.

TMA740206	TMA740200	INFRINGING MARKS



[11] In the prayer for relief, Wenger requested declarations of trademark infringement (s. 20 of the *TMA*), depreciation of goodwill (s. 22) and passing off (ss. 7(b)), based on its three trademark registrations. Injunctive orders and damages were also sought.

[12] Wenger's application was dismissed by the hearing judge, Justice Martine St. Louis, on March 24, 2016: *Wenger S.A. v Travel Way Group International Inc*, 2016 FC 347 [FC 2016]. She determined, among other findings, that in the context of passing off under section 7 of the *TMA*, the element of misrepresentation had not been satisfied because confusion had not been established. Wenger appealed the decision.

[13] On November 6, 2017, the Federal Court of Appeal allowed the appeal and set aside the hearing judge's judgment: *Group III International Ltd et al v Travelway Group International Ltd*, 2017 FCA 215 [FCA 2017]. It found that trademark infringement had been established under the *TMA*. It also found that the three necessary components of a passing off action, as set out in *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65, [2005] 3 SCR 302 [*Kirkbi*], at paragraphs 66-68, that is the existence of goodwill, deception of the public due to a misrepresentation, and actual or potential damage to the plaintiff, had been established.

[14] The Federal Court of Appeal noted that the hearing judge did not examine the issue of damage given her conclusion that the first two elements had not been established. In discussing

this issue, the Court considered that Wenger and Travelway were direct competitors in the market for luggage and bags in Canada, and that their wares were very similar and sold largely through the same retail outlets. It concluded that "it only makes sense to infer a likelihood of loss of sales and business by (Travelway's) misrepresentation."

[15] An injunction was granted, and the matter was returned to the hearing judge to determine: (1) whether Travelway's registered trademarks should be struck from the trademark register; (2) whether damages or an accounting of profits are recoverable by Wenger; and (3) if so, the amount and the appropriate procedure for determining them. Travelway did not seek leave to appeal FCA 2017 to the Supreme Court of Canada.

[16] After the injunction was issued in November 2017, Travelway removed the Infringing Marks from its products and replaced them with its SKROSS® marks.

[17] On August 29, 2019, the hearing judge concluded that Travelway's registered trademarks should be struck from the Trademarks Register: *Wenger SA v Travelway Group International Inc.*, 2019 FC 1104 [FC 2019]. She declined to award damages or an accounting of profits on the basis that Travelway was entitled to the benefit of s. 19 of the *TMA*, which states that "the registration of a trade-mark in respect of any wares or services, unless shown to be invalid, gives to the owner of the trade-mark the exclusive right to the use throughout Canada of the trade-mark in respect of those wares or services." However, she added the following proviso at para 45:

> [45] If I am wrong and the Applicants are entitled to monetary compensation for the past, I am of the view that it should take the form of an accounting of Travelway's profits, as sought by the Applicants, rather than an award of damages. Travelway has

> received, through its wrongful conduct, profits that should accrue to the Applicants.

[18] The Federal Court of Appeal allowed Wenger's appeal in FCA 2020. The Court agreed that the use of a registered trademark does not give rise to liability in damages or an accounting of profits for infringement for the period prior to a trademark being struck from the register and the portions of the decision in FCA 2017 finding passing off should not be followed as authority in future cases. Nonetheless, the Court concluded that, as between the parties, there was a finding of passing off in its prior decision that had not been appealed, and monetary compensation in the form of an accounting of profits to be quantified by way of reference should be awarded.

[19] Leave to appeal the Judgment in FCA 2020 was dismissed by the Supreme Court of Canada on September 29, 2021: *Travelway Group International Inc v Group III International Ltd, et al*, 2021 CanLII 91645 (SCC).

III. <u>Procedural Steps Leading to the Reference Hearing</u>

[20] By Order of Chief Justice Paul Crampton dated April 12, 2021, I was designated as referee under Rule 153(1) of the *Rules*.

[21] On December 13, 2021, Wenger filed a requisition for hearing. The parties identified the Statement of Issues for the reference simply as follows:

> What is the quantum of profits owed by Travelway arising from the sale in Canada of all goods bearing the infringing trademarks (TMA740,200 and TMA740,206, and their variants) from the date of first sale to the date of last sale, and to which the applicants are entitled?

[22] The parties agreed on a process and timetable for the reference, including exchanging of affidavits of documents, conducting written interrogatories, followed by examinations for discovery and service of expert reports.

[23] The reference hearing was originally scheduled to take place in June 2022, but things did not go as planned for reasons explained further below. A five-day evidentiary hearing ultimately took place in May 2023. After the close of the evidentiary portion of the hearing, the parties submitted written representations. A hearing was held on September 26, 2023 for oral submissions, followed by additional written submissions on the issue of deductibility from profits of Travelway's legal expenses incurred in the proceedings.

IV. The Witnesses

A. *Lay Witnesses*

[24] Wenger called one lay witness at trial: Raymond Durocher, the president of Holiday from January 2007 until 2022. Mr. Durocher adopted and updated the evidence he provided by affidavit dated August 13, 2013 [Durocher Affidavit] in support of the application. In his affidavit, Mr. Durocher expressed concerns about the damage being caused by Travelway's conduct to Wenger's business interests. He testified generally as to his experience in the luggage market in Canada, and with Holiday in particular, regarding luggage sales to retailer customers, such as Walmart, The Bay and Costco, including the importance of established brands to retailer orders.

[25] Three lay witnesses testified on behalf of Travelway: Gerald Shadeed, Maureen Mason, and Kristen Luff.

[26] Gerald Shadeed was executive vice-president, secretary, and treasurer of Travelway until his partial retirement in 2022. He spoke about Travelway's business and origins, Travelway's business relationship with a Swiss-based company, World Connect AG, Travelway's trademarks and its SWISS TRAVEL PRODUCTS (STP) product line, Travelway's relationship and contracts with Walmart and its predecessors, Travelway's actions following the issuance of FCA 2017, and his involvement in the present proceeding.

[27] Ms. Luff is an employee of Travelway since 1994. She moved to the United States of America in 2016 to manage business development for Travelway's sister company, Travelway Group USA Inc. She testified about Travelway's sales, accounting, and financial records, variable and/or incremental costs incurred by Travelway in relation to the sale of products bearing the Infringing Marks, and Travelway's overhead costs.

[28] Ms. Mason was a category manager (Luggage & Family Accessories) for Walmart until she left the company in September 2018. She spoke to issues such as Walmart's customer base, marketing and pricing strategies and product categories, and Walmart's purchases and sales of Travelway products, including those bearing the Infringing Marks. She also testified as to what transpired after the injunction was issued in FCA 2017.

[29] I found all four witnesses to be credible. They testified in a sensible, fair and forthright manner. They were not shaken in cross-examination, and at no time were they evasive, or prone to exaggeration. I found the evidence they provided at the hearing to be reliable and trustworthy.

B. *Expert Witnesses*

[30] Wenger called two expert witnesses: Dr. Ruth Corbin and Nancy Rogers. Travelway in turn relied on the evidence of two experts: Andrew Harington and Dr. Ceren Kolsarici.

(1) Qualification of Experts

[31] Procedurally, a *voir dire* must be held to determine the admissibility of expert opinion evidence. Before expert evidence can be given any weight, it must first be found admissible in accordance with the general principles enunciated by the Supreme Court of Canada in *R v Mohan*, [1994] 2 SCR 9 [*Mohan*]. The *Mohan* test requires the trial judge (the referee in this case) to scrutinize the proffered expert opinion evidence based on four criteria assessed on a balance of probabilities: (a) the relevance of the expert opinion to a fact-in-issue; (b) the necessity of the expert opinion in assisting the trier of fact; (c) the absence of any exclusionary rule; and (d) whether the witness is a properly qualified expert.

[32] Applying these principles to the evidence of the four expert witnesses, I found that all the criteria in the *Mohan* test were met. My task was made easier by the fact that neither party objected to the qualifications of the opposing party's experts or to the admission of their evidence. Based on my own review of the experts' curricula vitae and credentials, I found them

to be qualified to express the opinions they presented to the Court. Their evidence was both relevant to central issues to be determined on the reference and necessary as it is outside my normal experience and knowledge.

(2) Marketing Experts

[33] Dr. Kolsarici was qualified as an expert in marketing, marketing research and analytics, consumer behaviour, econometrics, and statistical modeling. She was asked to provide her opinion and prepare a report [Kolsarici Report] on: (a) the current state of scientific research in the field of marketing regarding the importance of trademarks as a factor in consumer purchase decision-making; (b) the current state of scientific research in the field of marketing regarding the importance of the perceived country of origin of a product as a factor in consumer purchase decision-making; (c) the causal link between Travelway's use of the Infringing Marks and their sales of the Infringing Products; and (d) the causal link between the perceived country of origin of the Infringing Products on sales of these products, given Travelway's use of the brand name STP, along with the Infringing Marks, on these products.

[34] It should be noted that the Infringing Marks were never used alone on the Infringing Products, such that the STP mark, depicted below, was always associated with the Infringing Products as well.

[35] Dr. Corbin was qualified as an expert to give opinion evidence in the areas of consumer perception, attitudes and buying intentions, marketing, forensic market research, and standards for social science research. She was retained by Wenger to review and update her affidavit evidence filed in 2013 that raised substantive issues of the risks to well-known brands arising from confusion. In her report [Corbin Report], she also provided reply comment to the Kolsarici Report.

[36] The two experts agreed on the general importance of brands to consumer decision-making and generally agreed on foundational marketing models and theories. Their areas of disagreement were mainly on the fringe – a result of each expert adopting a different scope of analysis. Although, I have not accepted certain opinions rendered or conclusions reached by these experts, I did not do so on the basis of any lack of credibility or impartiality on their part.

(3) Accounting Experts

[37] Ms. Rogers was qualified as an expert to give opinion evidence in the areas of investigative and forensic accounting, business valuation, and quantification of financial remedies, including accounting for profits. She submitted an expert report dated March 22, 2023 [Rogers Report] providing the quantification of net profits earned by Travelway on the sale in

Canada of all goods bearing the Infringing Marks from the date of first sale to the date of last sale. A supplementary report was prepared on April 17, 2023 [Rogers Supplementary Report].

[38] Mr. Harington was qualified as an accounting expert in the exact same fields as Ms. Rogers, with the notable exception that he was also qualified as an expert in accounting for profits "in intellectual property matters." This is contrary to Ms. Rogers, who did not profess to have any expertise in such matters. Mr. Harington was asked to provide his opinion as to the profits earned by Travelway as a result of its use of the Infringing Marks and to isolate their value relative to sales of the Infringing Products. He prepared a report on March 22, 2023 [Harington Report] and provided his reply to the Rogers Report [Harington Reply Report] on April 17, 2023.

[39] Following the exchange of their expert reports, the two accounting experts attended a Zoom call to discuss certain mathematical components of their reports. Mr. Harington subsequently issued an additional report. He later provided revised calculations to his quantification of Travelway's profits by way of letter dated May 1, 2023. This was followed by an addendum to the Rogers Supplementary Report dated May 5, 2023.

[40] I find that both financial experts testified in a fair and balanced manner. Each made an honest attempt to assist the Court with their evidence, which was constrained by certain mandated assumptions and instructions, and dependent upon the accuracy of information provided to them by others. In assessing their expert evidence and determining what weight to assign to it, I carefully considered the soundness of the expert's assumptions, the appropriateness

of the instructions they were given as well as their methodology, and the reliability of the facts underlying each opinion.

V. Analysis

[41] In asking this Court to quantify the profits made by Travelway from its sale of goods found to have been passed off as those of its own, Wenger suggests that the task revolves primarily around five themes:

1. the evidence and logic relied on in deducting expenses (both incremental and fixed) from gross sales;
2. the accuracy, appropriateness and legitimacy of the calculations employed;
3. the reliability of the records relied upon;
4. the validity and reliability of the expert analysis; and
5. the legal obstacles of *res judicata*, the *Federal Courts Rules* and the law of evidence.

[42] The first four themes are routine questions that a referee is called upon to deal with on a reference. In regard to the fifth theme, Wenger submits that much of Travelway's case seems to be based on the theory that the Infringing Products might have been bought for some reason other than the confusion and misrepresentation for which Travelway is responsible. According to Wenger, "this is an impermissible effort to retain profits Travelway alleges it *could have* or *would have* earned instead of wrongly passing off" [emphasis theirs].

[43] Wenger submits that the tort and statutory wrong of passing off has been established for sales of the Infringing Products, and it is entitled to an accounting of the profits Travelway earned from them. It strongly insists that findings and orders by the Federal Court of Appeal in its two judgments and their reasons are *res judicata*.

[44] Travelway submits that the issue as to whether it is entitled to rely on the benefit of s. 19 of the *TMA* has yet to be finally decided, despite the finding of passing off in FCA 2017, and that it is open to me to conclude that no compensation is owed for the period that its trademarks were registered. Travelway also claims that the period of time during which sales took place that are relevant in this reference remains at issue. Finally, it argues that the causal link between the use of the Infringing Marks and the sales of the Infringing Products has yet to be established.

[45] These arguments must be addressed first before turning to the evidence adduced and the parties' arguments that pertain to the quantification of profits to be disgorged by Travelway.

A. What Has (and Has Not) Been Finally Decided

[46] When it comes to making findings in this case, it is important to bear in mind that I am not wearing the hat of a judge, but rather that of a referee. The function of a referee is to undertake factual investigations that are necessary to the resolution of the matters in controversy between the parties that have been referred for adjudication. Conclusive findings that have been finally determined by the Federal Court of Appeal are binding on me and define the legal and factual context of the purpose of, and evidence tendered within, this reference.

(1) Whether Travelway can Avail Itself of the Protection Afforded by s. 19 of the *TMA*

[47] Travelway claims that it need not disgorge its profits for the period from when the Infringing Marks were registered to the date of their expungement. It submits that FCA 2020 does not explicitly state that the principles governing s.19 of the *TMA* in respect of the infringement of a registered trademark do not apply when the cause of action is s. 7(b) and the protection afforded by s.19 has been preserved. I find this to be an entirely specious argument. Travelway is clearly estopped from making it.

[48] As explained below, there has been a final determination that Travelway is liable for passing off, despite having valid trademarks.

[49] Issue estoppel is a branch of *res judicata*, which precludes the relitigation of issues previously decided in court in another proceeding. For issue estoppel to be successfully invoked, three preconditions must be met: (1) the issue must be the same as the one decided in the prior decision; (2) the prior judicial decision must have been final; and (3) the parties to both proceedings must be the same, or their privies (*Danyluk v Ainsworth Technologies Inc*, [2001] 2 SCR 460, 2001 SCC 44 at para 25, *per* Binnie J.).

[50] The third requirement of issue estoppel is met in this case.

[51] As for the first requirement, Travelway is asking me, in my role as a referee, to find that it need not disgorge its profits for the period from when the Infringing Marks were registered to

the date of expungement. However, this very issue was raised by Travelway and rejected by the Federal Court of Appeal in FCA 2020. In applying for leave to appeal to the Supreme Court of Canada, Travelway acknowledged that the Federal Court of Appeal ordered an accounting of profits for passing off for the years its registrations were in effect. In fact, the entire basis of Travelway's unsuccessful leave application was that the Federal Court of Appeal erred in ordering the remedy for the period when Travelway had valid registrations.

[52] The second requirement of issue estoppel is also met. When the Supreme Court denied leave to appeal, litigation of that issue came to an end. Travelway knows this all too well.

[53] Travelway's attempt to now argue that the issue of Wenger's entitlement to monetary compensation for the period when the registrations were in effect was never decided is nothing more than a blatant case of revisionism that does not accord with the unambiguous finding in FCA 2020 at para 47.

[54] To deny the remedy of disgorgement during the period when the registrations were in effect would fly in the face of the passing off finding in FCA 2017 and the subsequent holding in FCA 2020 that this finding remains binding "as between the parties."

(2) Whether the Specific Period of Time during Which Relevant Sales Took Place Remains at Issue

[55] Travelway submits that FCA 2020 does not state Wenger is entitled to compensation for any specific period and had no evidence before it as to the start and end dates of Travelway's sales. I disagree.

[56] There are clear findings of fact in FCA 2017 that Travelway started selling Infringing Products in 2009. In that decision, the Federal Court of Appeal concluded at paragraph 82 that there was misrepresentation from the time that Travelway's wares first entered the marketplace in 2009:

> [82] In my view, the evidence clearly establishes that there has been misrepresentation. From the time that the respondent's wares first entered the marketplace in 2009, the Travelway marks were quite similar to the Wenger marks. The resemblance was subsequently made stronger by several modifications to the Travelway triangle mark. The result is that the Travelway triangle mark and the Wenger marks are strikingly similar, particularly when displayed as the Disappearing S variant. In addition, the respondent associated its wares with Swiss-ness, as the appellants had done, and some of these claims were false. The only connection between the respondent and Switzerland revealed by the evidence is a branding arrangement with a Swiss corporation that allows the respondent to use the words "SWISS TRAVEL PRODUCTS." Accordingly, the respondent not only has used very similar trademarks but it made other claims of Swiss-ness that would have exacerbated the confusion in the public's mind.

[57] Travelway submits, citing Mr. Durocher's testimony, that Wenger itself was of the view that no harm was being caused to the goodwill of its trademarks until November 2012. It argues that because Wenger failed to take any action until then, it is plain and obvious that no profit was being derived by Travelway which could arise out of confusion amongst consumers during the

previous three year period. I disagree. In FCA 2017, no distinction is made between Travelway's registered trademarks and the variants when it came to concluding that there was a likelihood of confusion. As the Court noted, the diminishment of the prominence of the "S" in Travelway's "Disappearing S Mark" and the removal of the "S" in the Missing S Mark only served to increase the likelihood of confusion. This finding is binding on me.

[58] It is common ground that Travelway only ceased sales of the Infringing Products after the injunction was issued in 2017. In the circumstances, it is not open to me to shrink the period of the sales of Infringing Products to be taken into account in this reference.

[59] This brings me to the issue of causation.

(3) Whether Causation Remains at Issue

[60] Trademark law aims to prevent a competitor from unlawfully benefitting from the goodwill acquired by a trademark owner in its trademark or damaging that goodwill. The civil remedy in s. 7(b) protects the goodwill associated with trade-marks and is directed to avoiding consumer confusion through use of trade-marks: *Kirkbi* at para 35.

[61] The Federal Court of Appeal concluded in FCA 2017 that the evidence demonstrated a "likelihood" or "strong likelihood" of confusion between the Travelway marks and the Wenger mark, that "it only makes sense to infer a likelihood of loss of sales and business" by Travelway's misrepresentation. The Court went on to conclude that the element of damage had been established. In FC 2019, the hearing judge found that in the event she had erred in her

interpretation of the protection granted by section 19 of the *TMA*, Travelway had received profits that should accrue to Wenger.

[62] Travelway submits that despite these findings, there has been no determination whether the profits claimed by Wenger were actually gained because of the misrepresentation. Travelway says it would be an error of law to assume that decisions by consumers to purchase its products were not due to any other factor. It maintains that the profits to be disgorged must only be those proven to be causally attributable to the misrepresentation.

[63] In answer, Wenger submits that Travelway's arguments reflect a fundamental misunderstanding of the law and the findings that have been made in this case. According to Wenger, the law is clear that an order for an accounting of profits necessarily entails a finding of causation − that causation is a "condition *sine qua non* of the remedy" − and that in an accounting of profits, the rights holder need only prove the infringer's sales. The onus would then be on the infringer to prove any costs that it claims should be deducted from those sales numbers. Wenger cites various case law in support of this proposition, including *Constellation Brands US Operations Inc v Société de vin international ltée*, 2021 QCCA 1664 [*Constellation Brands*], at paras 46-48 and *Philip Morris Products S.A. v Marlboro Canada Limited*, 2016 FCA 55 at paras 17-18.

[64] It is Wenger's position that the terms of the judgments of the Federal Court and the Federal Court of Appeal exclude any possibility of leading evidence at the reference on the issue of causality or apportionment. With respect, I disagree. Beyond being at odds with the very relief

it requested when it commenced the underlying proceeding, Wenger's position is simply wrong. As noted by the Federal Court in *Monsanto Canada Inc v Rivett*, 2009 FC 317 (CanLII), [2010] 2 FCR 93, at para 47, citing Justice Ian Binnie of the Supreme Court of Canada in *Bristol-Myers Squibb Co v Canada (Attorney General)*, [2005] 1 SCR 533 at para 52, "linking the making of a profit to the use of the patented product is insufficient." The critical question on this reference is not whether Travelway is at fault, but rather whether Travelway made any profits as a result of actual confusion created by its conduct.

[65] It bears noting that the underlying proceeding was commenced by way of application, and not as an action. There are important procedural differences between the two proceedings, as explained by Associate Judge Horne in *C-Tow Marine Assistance Ltd v Sea Tow Services International, Inc*, 2024 FC 101 at paragraphs 28 to 35. Unlike an action, an application is heard on a paper record. There is no discovery process and interlocutory motions are discouraged.

[66] A party to a proceeding (more typically an action) may request an order pursuant to Rule 107 of the *Rules* that certain issues in a proceeding be determined separately. Although Wenger did not formally move for a bifurcation order in this case, it requested this specific relief at paragraph 69 of the Notice of Application:

> 69. The issues of liability for infringement and of the Applicants' entitlement to declaratory and injunctive relief should be determined first and, subject to the determination of liability, a reference relating to the issues of quantum of damages or profits should then be conducted on such terms as counsel may advise and this Honourable Court deems just.

[67] It is therefore not surprising that the parties' affidavit evidence, cross-examinations and submissions at the hearing stage were focussed exclusively on the issues of liability and entitlement to a remedy. The power to order remedies in respect of trademark infringement derives from s. 53.2 of the *TMA*, which includes "the recovery of damages or profits."

[68] In FCA 2017, the Court concluded that "it only makes sense to infer a likelihood of loss of sales and business by the respondent's misrepresentation" (para 84) and "the element of damages is […] established." However, the only evidence before the Court in FCA 2017 to support Wenger's claim for monetary relief was that of Mr. Durocher. The Durocher Affidavit speaks generally to potential damage or destruction of the value and distinctiveness of the Wenger Marks. Mr. Durocher stated that deficiencies in the quality of the Respondent's goods would lead consumers to devalue the quality of Wenger's wares, permanently damaging the reputation for quality and the brand characteristics of the Wenger Marks and the wares sold in association with those Marks. He also claimed that the very low price points of Travelway's goods would cause consumers to be less willing to pay the higher prices at which Wenger's wares are generally sold, eroding the profit margin of Holiday (and notably adding) "in a manner that is difficult to measure." It is on the basis of this evidence that the matter was referred back to the hearing judge "to determine whether <u>damages</u> are recoverable and, if so, the amount of <u>damages</u>". [Emphasis mine.]

[69] An award of damages differs fundamentally from an accounting of profits. A claim for damages focuses on the plaintiff's loss whereas an accounting of profits looks at the benefit or advantage that a defendant derived from the use of the invention. In the case at hand, the hearing

judge declined to grant Wenger's request for a reference on damages and chose instead to award an accounting of profits. Consequently, any damages that may have been sustained by Wenger as a result of passing off, such as depreciation or damage to the value of goodwill in its trademarks or unfair trading on Wenger's reputation, are not relevant. Had Wenger elected damages as a remedy, it would still have been required to demonstrate a causal link between the use of the Infringing Marks and its lost profits: *Energizer Brands, LLC v Gillette Company*, 2023 FC 804 at paras 249 [*Energizer*].

[70] While the findings in FCA 2017 and FCA 2020 finally determined the issue of liability for misrepresentation and Wenger's entitlement to damages, the Court did not purport to make any determination that there was a causal link between the <u>profits</u> made by Travelway from the sales of the Infringing Products and the misrepresentation. There was simply no evidence of actual confusion before the Court. Nor for that matter was the issue of apportionment raised by either party. That being so, it would certainly be paradoxical that the formal judgments leading to this reference should have the effect now contended for by Wenger.

[71] I am fully aware that the hearing judge concluded in FC 2019 that "Travelway has received, through its wrongful conduct, profits that should accrue to the Applicants." According to Wenger, this statement clearly establishes that Travelway's profits are causally related to the act of infringement. It should be said, with respect, that the hearing judge's statement (which I view as an inference rather than a finding of fact) was not based on any evidence or any analysis regarding the link between the sales of the Infringing Products and the use of the Infringing Marks. This is apparent from the hearing judge's later observation in her reasons that evidence of

Travelway's profits "was neither in the initial application nor in the affidavits that were filed." I should add that even if the hearing judge's "finding" stands, it does not necessarily amount to a conclusion that all the profits from the sales of the infringing products are profits arising from the misrepresentation. As explained further below, such conclusion is not borne out by the evidence before me. Wenger's own expert conceded that it was implausible that all of the profits earned by Travelway from the sales of the Infringing Products could have been causally attributable to the use of the Infringing Marks.

[72] If no benefits were unlawfully gained as a result of the use of trademarks found to be confusing, there are no profits to be disgorged. It is settled law that the rights holder is only entitled to that portion of the infringer's profit which is causally attributable to the infringed right.

[73] The requirement that an infringer's disgorged profit must be only the profit which is causally attributable to the infringement was recently reaffirmed in *Nova Chemicals Corporation v Dow Chemical Company*, 2020 FCA 141 at para. 32 [*Nova FCA*]. The Federal Court of Appeal gave a "prudent reminder to apply causation principles properly and rigorously, to ensure that the gain earned by the infringer as a result of the infringement is reversed, no more, no less." The Court stressed at paragraph 33 that the key words are "as a result."

> [33] To reiterate, under an accounting of profits, the patentee is entitled to the benefits obtained by infringers as a result of the infringement of the patent, properly construed and understood, no more, no less. The key words are "as a result" and "infringement of the patent, properly construed and understood". The former stresses the need for the court to analyze causation, <u>for only those amounts causally linked to the infringement are captured by the accounting of profits; anything extra is punitive.</u> The latter reminds

> us that the focus is on the protection afforded by the patent; anything extra effectively extends, improperly, the scope of protection afforded by the patent.
>
> [Emphasis added.]

[74] The very existence of the order for the reference in FCA 2020 lead to the belief that the issues of causation and apportionment remain open to be considered in light of all the evidence adduced by the parties. I am satisfied that there was no intention on the part of the hearing judge or the Federal Court of Appeal to circumscribe in any way the profits analysis in accordance with the case law.

[75] For the above reasons, I find that causality and remoteness may properly be explored at the quantification phase of this proceeding: *Lubrizol Corp v Imperial Oil Ltd*, 1996 CanLII 4095 (FCA), [1997] 2 FC 3. These are issues of fact: *Beloit Canada Ltée/Ltd v Valmet Oy* (1992), 45 CPR (3d) 116 (FCA).

[76] According to the Supreme Court's holding in *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34, at paragraphs 101-105, in an accounting of profits, it must <u>first be shown</u> that the infringer's profits are <u>causally related</u> to the act of infringement, and then <u>the appropriate quantification or apportionment</u> of profits attributable only to the infringing activity must be determined. Accordingly, I will address the issue of causality before tackling the monetary issues.

B. *Causal Link between the Profits made from the sales of the Infringing Products and the use of the Infringing Marks*

[77] With respect to the burden of proof that rests on the parties at the quantification phase, Wenger is required to prove only Travelway's revenue from sales of the Infringing Products. The burden then shifts to Travelway to establish, based on the usual evidentiary standard of a balance of probabilities, which portion of its profits from the sales of the Infringing Products was not made as a result of the misrepresentation: *Philip Morris Products S.A. v Marlboro Canada Ltd*, [2015] FCJ No. 1564 at paras. 10-11, 45, affd *Philip Morris Products S.A. v Marlboro Canada Limited*, 2016 FCA 55.

[78] Travelway relies on the evidence of two witnesses (Dr. Kolsarici and Ms. Mason) to support its claim that Travelway's misrepresentation had little to no effect on customers when deciding to purchase the Infringed Products. Wenger called Dr. Corbin to provide reply comment to the Kolsarici Report and to confirm and update her expert report filed earlier in support of the application. As explained further below, the experts fundamentally disagree on the importance of brands and logos at the purchase stage of the products at issue.

(1) Evidence of the Marketing Experts on Causality

[79] As noted in her report, Dr. Kolsarici conducted three behavioural experiments, the purpose of the first two was to determine the impact of various product attributes, including both the Infringing Marks and the SWISS TRAVEL PRODUCTS brand name, on consumers' decision to purchase both luggage and travel accessories respectively. The purpose of the third

experiment was to measure whether the perceived country of origin had an impact on consumers' perceived quality of and likelihood to purchase the Infringing Products.

[80] According to Dr. Kolsarici, the empirical data she obtained through the experiments showed that consumers shopping at Walmart place little to no importance on the Infringing Marks when they evaluate the Infringing Products as part of their purchase decision process. Rather, they greatly prioritize attributes such as price, perceived quality, durability, weight and size. Dr. Kolsarici's ultimate conclusion is that, based on her review of the literature and the experiments she conducted, any sales of the Infringing Products are not causally attributable to the Infringing Marks.

[81] Dr. Corbin strongly disagrees. She argues that Dr. Kolsarici's experiments, which she describes as "surveys", lack reliability and validity and that there is no basis to infer them to be true of real-life behaviour. According to Dr. Corbin, their design makes it impossible to reliably or validly test the strength of the cause-effect linkage between purchase and perceived Swiss-ness, or the strength of the cause-effect linkage between purchase and the Infringing Marks. On this score, I agree with Dr. Corbin.

[82] I have difficulty reconciling Dr. Kolsarici's conclusions that, on the one hand, the Infringing Marks are not important drivers of consumer purchase decision when it comes to luggage and travel accessories and, on the other hand, the country of origin (or perceived country of origin) creates higher quality perceptions, which in turn increases the likelihood of purchase.

[83] In conducting her experiments, it appears that Dr. Kolsarici was not aware of the reputation and goodwill that Wenger had acquired in its Marks, and was not properly informed of the findings that govern this reference and, in particular, the Federal Court of Appeal's express finding in FCA 2017 at paragraph 63 that false claims of "Swiss-ness" were themselves an element of the misrepresentation that established passing off.

> [63] First and foremost, the ideas suggested by the Travelway cross mark and the Wenger cross mark are the same – the idea of "Swiss-ness." Both marks incorporate a cross reminiscent of the Swiss flag and Travelway's mark emphasizes this by adding an "S." This is a significant factor that gives a strong resemblance in this particular case.

[84] Here, all of Travelway's branding played a role in the passing off, including the cross prominently featured in the Infringing Marks, which is evocative of the Swiss flag. In my view, the role that Travelway's false claims of "Swiss-ness" had in consumers' purchasing decisions was not properly factored into the experiments conducted by Dr. Kolsarici.

[85] Dr. Corbin identified in her report various reasons why Dr. Kolsarici's behavioural experiments fail to meet the required standards of reliability and validity. By way of example, when one of the surveys was conducted, the respondents were told: "Please answer the following questions about your experience with the Swiss Travel Products brand." I agree with Dr. Corbin that an unwarranted assumption is made that respondents have had such experience. The question also introduces a bias of informing people previously unaware of Swiss Travel Products that such a brand exists, resulting in the respondents being asked to choose between a "known" brand and a possibly unknown brand, SKROSS. Dr. Corbin also describes flaws in Dr. Kolsarici's methodology, such as the failure to confirm that any Wenger purchasers, or anyone

familiar with Wenger, took part in the surveys, or that any of the respondents were actually luggage shoppers or Walmart shoppers. These flaws are compounded by the lack of analysis of putative Swiss Travel Products purchasers and serious questions as to whether the overall sample of respondents itself was representative of the Canadian marketplace.

[86] The criticisms levelled by Dr. Corbin regarding the reliability and validity of the data obtained from the behavioural experiments have merit. I have accordingly placed little weight on the opinions and conclusions expressed by Dr. Kolsarici based on the data she obtained from the experiments. That said, certain aspects of Dr. Kolsarici evidence, such as on the general importance of brands to consumer decision-making, the generally accepted models of consumer decision-making processes and the “Four P’s” of marketing theory, have resonated with me and proved quite useful in my analysis of the issue of causality in this case.

[87] Both Dr. Corbin and Dr. Kolsarici agree that goods can generally be categorized based on four product types: convenience, shopping, speciality, and unsought goods. The experts also agree that categorization of products depends on multiple factors, including branding strategy. One must look at the entirety of the product to determine where it falls on the spectrum of convenience good to specialty product.

[88] The experts initially disagreed on the categorization of the products at issue in this case. Dr. Kolsarici is of the opinion that non-luxury luggage and backpacks fall under shopping goods category because they are more expensive and less frequently bought than convenience goods, they are sold at a large number of outlets compared to speciality goods, and they are

differentiated from their competitors through advertising and pricing. She opines that the brand itself is not as critical in shopping goods, including luggage, as consumers are likely to switch brands if the key drivers of purchase, such as price, functionality, and availability, favour another brand.

[89] Dr. Corbin suggests that this scope of analysis is too broad; it inaccurately paints all non-luxury luggage and backpacks in one broad brushstroke. While she ultimately agrees that the Infringing Products are shopping goods, she questions whether such a categorization would be appropriate once a brand develops high recognition or loyalty. According to Dr. Corbin, Dr. Kolsarici's analysis is not complete because it omits the instances when a logo or brand is the destination. In those cases, the brand becomes more important than product attributes and distribution.

[90] In discussing the concepts of brands, logos, and trademarks, the experts agree that while they are distinct, they are intertwined and influence one another. They also agree that trademarks and brands are different, recognizing that trademarks are legal instruments to protect brands. A brand is more than just a name or a logo; it is a collection of various elements that serve to identify and differentiate the goods or services in question. Dr. Kolsarici and Dr. Corbin also agree that logos, if well known, symbolize their brand and can bring their associated brands to mind. While the experts share a basic understanding of these concepts and how they relate to one another, they disagree on their importance in purchase decisions.

[91] The experts are in agreement that purchase decisions are affected by psychological, socio-cultural, situational influences as well as a company’s marketing mix efforts. These influences are referred to as the Four P’s of marketing.

[92] The typical steps to purchasing a product are: 1) problem or need recognition, 2) information gathering, 3) evaluation of alternatives, 4) purchase, and 5) post-purchase behaviour. Both experts recognize that consumers sometimes shorten or skip some steps, depending on consumer purchase involvement, especially for low-involvement purchases.

[93] Dr. Kolsarici and Dr. Corbin agree that a brand, if recognizable, can assist a consumer in short-circuiting or skipping past some degree of information search. There is consensus that consumers tend to rely on extrinsic cues such as price, brand, materials, and country of origin to make inferences about intrinsic cues such as quality and performance. Dr. Kolsarici concedes that if a significant portion of quality perception comes from a logo then the logo would be among the drivers in purchase decisions and it could serve as a shortcut to a judgment about quality.

[94] Both experts understand brand logos to be attention-grabbers; they create brand perceptions, brand interest and brand awareness (i.e. they are in the early stages of the consumer purchase journey) and they agree that brand logos are necessary precursors of many purchases.

[95] They also agree that some logos, such as that of McDonald's or Starbucks, convey brand name or identity because of long-standing association. Where there is established brand loyalty or a trusted referral, people go to a store knowing what they are looking for.

[96] In the end, both experts agree that country of origin is at times an important factor. According to Dr. Corbin, whether country of origin has an effect on purchase depends "on the wares, on the strength of the perceived association between wares and country, and on the image that the association creates." She adds that country of origin is an important factor when "the country of origin is reflected in the perceived value of the brand" and "each element of the brand reinforces the same perception of value linked to country of origin."

[97] Wenger claims that Dr. Kolsarici conceded that the true driver of purchasing behaviour in the present case was the perceived "Swiss-ness" of Travelway's products. I disagree. Her evidence is that creating a direct link to "Swiss-ness" through the brand name improves the quality perception of the Infringing Products, which also increases the probability of purchase. However, she consistently maintained her position that the impact of brand elements such as logos and symbols on sales, especially for shopping goods, is low compared to other factors, including price.

[98] To be clear, I do not accept Dr. Kolsarici's opinion that "the impact of brand elements such as logos, and in particular more abstract logos like symbols, is not a driver of purchase decisions for shopping goods such as luggage and travel accessories". This is, as Dr. Corbin states, an implausible proposition. Such a broad and sweeping conclusion flies in the face of

generally accepted principles of marketing and the very purpose of trademark protection. There can be little doubt that some people buy goods based on logos.

[99] Nevertheless, I find persuasive Dr. Kolsarici's expert evidence that the consumer decision-making process and the level of consumer purchase involvement will depend heavily on the product type at issue and agree with her that the Infringing Products fall under the category of shopping goods. Dr. Kolsarici's opinion that the impact of brand elements such as logos and symbols on sales of shopping goods is low compared to factors such as price, perceived quality and product placement appears to me to be quite sensible and well-supported by the academic marketing literature upon which she relied.

[100] Dr. Corbin argues that Dr. Kolsarici's literature review was narrowly construed and fails to include the broad range of situations where consumers have a brand loyalty in mind or a trusted referral before going shopping. She also claims that Dr. Kolsarici's analysis misses the point of well-known brands being brought to mind by their associated logos. I disagree.

[101] Whereas Dr. Kolsarici's conclusions on the importance of logos in purchase decisions are specific to shopping goods, Dr. Corbin did not limit her analysis to any specific category of goods and remained at the level of generalities. Moreover, Dr. Kolsarici's analysis focussed on consumers who do not have knowledge about the products or are not sure what they want and have not yet made a decision. Dr. Corbin instead looked at more sophisticated consumers who know what they are looking for and are familiar with the brand. Finally, Dr. Kolsarici's ultimate conclusions were corroborated to a large extent by real-world evidence at the hearing. For these

reasons, I preferred Dr. Kolsarici's opinions on the impact of brand elements on sales of shopping products when they conflicted with those of Dr. Corbin.

(2) Real-World Evidence of Causality

[102] The issue of confusion must be determined by reference to persons who are likely to purchase the wares in question. In *Canadian Schenley Distilleries Ltd v Canada's Manitoba Distillery Ltd*, 25 CPR (2d) 1 (FC) at para 15, the Federal Court explains that the consumer concerned is the one likely to buy the wares:

> [15] To determine whether two trade marks are confusing one with the other it is the persons who are likely to buy the wares who are to be considered, that is those persons who normally comprise the market, the ultimate consumer. That does not mean a rash, careless or unobservant purchaser on the one hand, nor on the other does it mean a person of higher education, one possessed of expert qualifications. It is the probability of the average person endowed with average intelligence acting with ordinary caution being deceived that is the criterion and to measure that probability of confusion the Registrar of Trade Marks or the Judge must assess the normal attitudes and reactions of such persons.

[103] Identifying the persons who are likely to buy the infringing wares involves a practical determination of fact, not discretion, and it follows that each case stands on its own facts. Fortunately, there is evidence before me to assist in that determination in this case.

[104] Walmart was the discount retailer that accounted for over 80% of sales of the Infringing Products. Ms. Mason, a long-term employee of Walmart until she retired in 2018, testified that she was the purchaser of products for its luggage and travel accessories departments at the time the Infringing Products were sold. As purchaser, and later category manager, she was

accountable for the numbers in every category of the goods, including inventory levels, receipt plans, points of sales, gross profit, and their turnover.

[105] Ms. Mason had access to data and information gathered by Walmart’s marketing department, including market share information that related “to everything from price to types of commodities to brands to everything”, as well as results from focus groups carried out in all different areas within Walmart. She had regular meetings at head office to discuss these matters.

[106] Ms. Mason testified that brand was not a consideration for her when purchasing inventory to sell because Walmart’s data showed that brand was not a consideration for consumers shopping at Walmart. According to Ms. Mason, the typical Walmart customers have “restricted disposable income” and are “very price conscious.”

[107] In order to determine priorities when building assortments of goods, Ms. Mason used a consumer “decision tree,” which she described as follows:

> So it really starts with what is the most important thing that your customer is looking for or is important to them as they shop. So if they’re standing in front of, as an example, the luggage department, what is uppermost in their mind, what is next in their mind, and you go down the tree, so to speak, from top to bottom of what those priorities are.

[108] Ms. Mason’s description of the modular and decision tree for products closely mirrors the decision-making process of consumers set out in the Kolsarici Report.

[109] When asked to explain how the decision tree applied to luggage, and how the different characteristics and product features were ranked, she stated in direct:

> A. Number one on the decision tree based on our focus customer was price. Price, and then I say slash value. So although our target customer had limited disposable income, they still wanted to get a quality product for what they could buy. So price was definitely number one. Quality I would say would come in at number two. Features and benefits would come in at number three. Colour was lower on the list, because for most of the tenure I had in this department, black was still the number one colour in luggage. And then brand. I think, yes, I would say that would be the list.

[110] When asked why, in her experience, brand was on the lower part of the decision tree, Ms. Mason responded: “It wasn’t as important to our customer.” I take from Ms. Mason’s evidence that the use of the Infringing Marks and its false claims of Swiss-ness had little, if any, effect on the decision-making of the great majority of customers who purchased luggage at Walmart during the accounting period at issue. In other words, very few of them were misled as source of the goods. In my view, her evidence serves to validate one of the main conclusions reached by Dr. Kolsarici.

[111] Ms. Mason stated in direct that national brand companies, particularly luggage companies, “are loathe to sell at a discount operator like Walmart.” She conceded in cross-examination that if a customer saw a national brand in Walmart, it would possibly affect their assessment of quality or value of the goods; however, she added:

> A. We have so few national brands in Walmart. I had a tendency to build those quality features into the names that we had on our luggage. I mean, let's be honest about it. I didn't have a true national brand. In all of the focus groups and the research that was done with the Walmart customers, the two national brands, virtually the only two national brands that the Walmart customer

> said they would love to see in the luggage department at Walmart was Samsonite and Heys.

[112] Her testimony certainly casts a different light on the finding in FCA 2017 that the parties' goods were sold "largely through the same retail outlets." [Emphasis mine.]

[113] Generally, a lay witness can only provide evidence that is limited to facts of which they are aware. However, there are exceptions to this rule, as explained in *Toronto Real Estate Board v Commissioner of Competition*, 2017 FCA 236, at para 79:

> [79] […] opinion evidence from lay witnesses is acceptable in limited circumstances: where the witness is in a better position than the trier of fact to form the conclusions; the conclusions are ones that a person of ordinary experience can make; the witnesses have the experiential capacity to make the conclusions; or where giving opinions is a convenient mode of stating facts too subtle or complicated to be narrated as facts.

[114] Ms. Mason's evidence did not stray into inadmissible opinion evidence. It was based on knowledge she acquired over a number years in her role as purchaser/category manager for Walmart. Her evidence regarding the lack of importance placed by Walmart and its customers on brand logos and brand names when shopping for luggage at Walmart was left largely unchallenged by Wenger.

[115] I consider the evidence of Ms. Mason, a disinterested witness with no stake in the matter, to be quite persuasive. It was open to Wenger to call evidence to rebut this evidence, but it failed to do so.

(3) Evidence of Isolation of the Profits Causally Attributable to the Infringement

[116] The requirement for a causal link between infringement and profit may require that the profit be apportioned between that which is attributable to the infringement and that which is not: *Cinar Corporation v Robinson*, 2013 SCC 73 (CanLII), [2013] 3 SCR 1168 at para 77.

[117] Apportionment is not a foreign concept. By way of example, as far back as six decades ago, in *Dubiner v Cheerio Toys & Games Ltd*, 1966 CanLII 481 (CA EXC), [1966] Ex CR 801, the Court agreed with the Deputy Registrar's conclusion that the plaintiff was entitled to require the defendant to account for only the part of the profit it realized on infringing sales that was attributable to the use of the plaintiff's trademarks. In the decision under appeal, the Deputy Registrar concluded that 20 percent of the profit realized by the defendant on its sales made in the accounting period was attributable to its use of the trade marks. The Court recognized that although the figure arrived at was only approximate, "it cannot be anything else under the circumstances."

[118] Wenger's own expert, Dr. Corbin, concedes that the extent to which the Infringing Marks contributed to the sales of Travelway's Infringing Products cannot be known precisely. She was pressed on this point in cross-examination :

> Q. Would a hundred per cent be plausible or implausible?
>
> A. A hundred per cent would be implausible.
>
> Q. Implausible. What would be plausible to you? 20 per cent? 50 per cent? 80 per cent? Where do you draw the line?
>
> A. I don't draw a line. That's the point. It isn't zero. That is not plausible. The surveys produce zero, and we know that logos are --

> it's just not plausible that it's completely zero. And if you say what should it be, that is what my report observed. It would be nice to have a measurement like we do in confusion studies, where there's a bar that courts have established that say 15 to 20 per cent confusion starts to be something that is material. There is no estimate here of that extent. There's only a conclusion of zero, and I'm saying it can't be zero.

[119] Courts are often placed in the unenviable position of guestimating quanta, or of quantifying the unquantifiable. As stated by Devlin J. in *Biggin & Co v Permanite*, [1951] 1 KB 422 (Eng. KB) at 437 "[w]here precise evidence is obtainable, the court naturally expects to have it ... [w]here it is not, the court must do the best it can."

[120] I take comfort from the fact that the analysis conducted by Mr. Harington in an attempt to isolate the value of the Infringing Marks relative to sales at Walmart lends support to both Dr. Kolsarici's conclusion that the impact of brand elements on sales of shopping goods is low compared to factors such as price, quality and product placement and to Ms. Mason's evidence that brand was on the lower spectrum of the decision-making process of Walmart customers.

[121] Mr. Harington's expert evidence brings an additional, financial perspective on the issue of causality and further demonstrates a relatively minor impact between the profits and the use of the Infringing Marks. The isolation analysis was made possible because Travelway seamlessly transitioned from the Infringing Marks to a non-infringing mark after FCA 2017. Given the switch to the SKROSS® brand with identical products (exactly the same as the products sold in association with the Infringing Marks but with Infringing Marks removed), Mr. Harington was in a unique position to isolate, to some degree, the profits causally attributable to the passing off, as he explains in direct:

> A. In this case we are in quite a unique position, where the exact or substantially identical position -- I think I heard earlier today it's identical product -- was sold with or without the impugned marks. So we have a situation that they're not sold at the same time. They're sold in different time periods, and there's a two-month gap between them. But we're in a unique position where I can look at, all other features the same other than the passage of time, and say what was the impact of the cessation of the use of the impugned marks.

[122] Wenger submits that Mr. Harington's theory does not isolate the value of the passing off or "distinguish the widget from the car." According to Wenger, it simply posits the profits that Mr. Harington supposes, outside his expertise and without evidence, Travelway could have made were it not passing off, and deducts them. Such an approach, it says, was categorically rejected by the Supreme Court of Canada in *Nova Chemicals Corp v Dow Chemical Co*, 2022 SCC 43 at paras 59-66 [*Nova SCC*]. I disagree with these arguments.

[123] As mentioned earlier, Mr. Harington is specialized in the field of assessing monetary compensation, particularly in the field of intellectual property. He was so qualified, without objection, at the hearing before me. Contrary to Ms. Rogers, Mr. Harington's expertise extends to calculating profits made as a result of an infringement. The sole purpose of Mr. Harington looking at post-injunction sales of Travelways' products was to isolate the value of the intellectual property at issue and not, as alleged by Wenger, to determine what Travelway could have or would have done had it not infringed.

[124] Wenger also criticizes Mr. Harington for relying on more high-level documents such as the financial statements or Travelway's gross margin reports to perform his analysis. However,

as explained further below in my profits analysis, I am satisfied that Mr. Harington had before him reliable evidence to support his analysis.

[125] Mr. Harington was able to identify products using the Infringing Marks that were otherwise identical and were sold immediately prior to the injunction being issued in FCA 2017 and then rebranded as SKROSS® without the Infringing Marks following that date. The products used in his analysis, which Mr. Harington refers to as “Unreplaced Sales” (i.e. the decrease in sales), comprised nearly [redacted] of the total sales of the Infringing Products of [redacted]. All of these sales were made to Walmart.

[126] Mr. Harington calculated the percentage of “replaced sales” – sales of the Infringing Products that were replaced by sales of products without the Infringing Marks after the issuance of the injunction in FCA 2017. He then applied this percentage to the sales of the Infringing Products before the issuance of the injunction to arrive at the amount of revenues that, from his perspective, cannot be attributable to the use of the Infringing Marks. The methodology used by Mr. Harrington in conducting his analysis is explained in great detail at paragraphs 36 to 52 of the Harington Report.

[127] Mr. Harington’s analysis demonstrates that “at most” 26.4% of sales of the Infringing Products may have been causally attributable to the use of the Infringing Marks, given that this was the weighted average percentage of Unreplaced Sales for the exact same luggage style bearing the SKROSS marks after the decision in FCA 2017. However, given that other marks were used on each of the products in addition to the Infringing Marks (i.e. the STP Design and

the words “Swiss Travel Products”) and all the other factors identified by Ms. Mason and Dr. Kolsarici, Mr. Harington could not fully isolate the impact of the Infringing Marks themselves.

[128] There was insufficient data for Mr. Harington to provide a reliable analysis of replaced sales for non-Walmart customers. As a result, Mr. Harington provided two alternative calculations for non-Walmart customers. In the high-scenario, he assumes that one hundred percent of sales to non-Walmart customers are attributable to the use of the Infringing Marks. In the low scenario, he assumes that the same percentage of Unreplaced Sales applicable to Walmart is applicable to non-Walmart customers.

[129] I recognize that there was a certain degree of arbitrariness to the data used by Mr. Harington to capture the baseline sales of the SKROSS branded goods. However, I find the methodology he used to isolate the value of the infringement to be both appropriate and logical. Mr. Harington was not shaken on this aspect of his evidence and he remained steadfast in his position. Of note, Wenger did not adduce any rebuttal expert evidence to contradict Mr. Harington’s analysis. For these reasons, I find Mr. Harington’s evidence relating to the value of the infringement to be very persuasive.

(4) Conclusion on Causality

[130] Knowing full well that Travelway was taking the position that there was no causality between the profits generated from the sale of the Infringing Products and the use of the Infringing Marks, Wenger could have collected data or other evidence to show that consumers

who purchased the Infringing Products were actually confused as to the source of the goods, such as complaints generated by confused consumers; however, it failed to adduce any such evidence.

[131] Based on the evidence before me, I conclude that Travelway has established, on a balance of probabilities, that a reasonable estimate of the degree of causation between the sales of the Infringing Products at Walmart and Travelway's profits falls within a range of 5% (based on the evidence of Dr. Kolsarici and Ms. Mason) and 25% (based on Mr. Harington's evidence), and consider it just and appropriate to assess it at the midpoint at 15%. In light of Dr. Kolsarici's evidence the impact of brand elements on sales of shopping goods is low, I find that the estimate of 15% should also apply to all sales of the Infringing Products at other stores.

C. *Travelway's Profits*

[132] The general and specific principles that underlie the law relating to an accounting of profits are identified and explained in detail in *Nova FCA* at paras 9 to 82. An accounting of profits focuses on the profits wrongfully earned by the infringer and requires that the defendant disgorge to the plaintiff the amount of profits earned by reason of the infringement.

[133] In *Nova SCC* at para 15, the Supreme Court of Canada laid out a three-step test to be applied in an accounting of profits. While *Nova SCC* was a case involving patent infringement, the availability and extent of a remedy under s. 53.2 (1) is governed by the same legal principles. At step 1, the court should calculate the actual profits earned by selling the infringing products. At step 2, the court should attempt to isolate the value of the infringement. At step 3, the court

should subtract the value of the infringement from the actual profits to determine the amount to be disgorged.

[134] In light of my conclusion regarding causality (i.e. value of the passing off) and the ease with which the amounts in steps 2 and 3 can accordingly be calculated, the balance of my reasons will focus on step 1 of *Nova SCC* - the calculation of the actual profits earned by Travelway.

[135] There is a stark difference of professional opinion on this subject. The two experts came to their conclusions largely because they viewed the evidence differently and applied different accounting approaches to the evidence.

[136] On the one hand, Ms. Rogers was instructed not to accept costs and expenses as accurate in the absence of evidence she considered reliable. She also did not consider a full cost method to be appropriate in this case, nor did she apply the differential profits method. On the other hand, Mr. Harington tended to accept Travelway's financial records at face value. He applied the full cost method as described in *Nova FCA* at paragraph 165, as instructed by counsel. These differences had a significant impact on mathematical calculations which each expert performed to reach their conclusions.

[137] By way of example, the accounting experts agreed on Travelway's net revenues of [redacted] from the sales of the Infringing Products over a ten-year period and on the costs of goods sold [COGS] of [redacted] incurred by Travelway to produce them.

[138] Ms. Rogers was able to ascertain the net sales amount for all years the Infringing Products were sold of [redacted] relying on Travelway's financial statements and sales reports. Although the sales figures were considered to be hearsay, Ms. Rogers relied on them under the party admissions exception to the hearsay rule which does not require a necessity and reliability analysis because the usual hearsay dangers do not apply. The logic behind this exception is that a party cannot complain that its own statements are untrustworthy or that it cannot cross-examine itself: *R v Evans*, [1993] 3 SCR 653.

[139] Mr. Harington was instructed to adjust his figures to agree with Ms. Rogers' COGS number because the difference between their respective approaches was too small to be meaningful and Ms. Rogers' method involved a more forensic review of all available costing data per shipment of products bearing the Infringing Marks.

[140] Ms. Rogers applied two kinds of deductions from the net revenue —credit memo discounts of [redacted],[redacted] and COGS of [redacted] —to arrive at a gross profit number of [redacted]. However, Mr. Harington took further deductions for O&M Costs and calculated the gross margin before deduction of O&M Costs as [redacted]. The difference between Mr. Harington's calculation and that of Ms. Rogers is primarily due to their disagreement on credit memo deductions.

[141] Ms. Rogers excluded discounts for credit memos issued by Walmart on the basis that the credit memos provided by Travelway did not provide the detail as to which products the discounts relate to and Travelway had not provided sufficient documentation to support a

complete analysis of the credit memos. Her profits calculation therefore only took into consideration the percentage of discount relating to the gross sales by product to the extent that the discount was referred to in Travelway's vendor agreement and the vendor agreement indicates that the discount is not applied directly to the invoice.

[142] Mr. Harington considered Ms. Rogers' approach of attempting to isolate each individual credit memo that is attributable to the Infringing Products and apply the discount percentages in the Walmart vendor agreement to be incorrect. He instead adopted what Ms. Rogers characterized as a "big picture" approach. He took the total amount of all Walmart credit notes for all Walmart sales (infringing and non-infringing alike) from a summary prepared by Travelway, calculated that total as a percentage of Travelway's sales to Walmart, and then applied that percentage to Travelway's sales of the Infringing Products to Walmart. Mr. Harington used the same approach for Canadian Tire credit notes. In the result, he deducted [redacted] for credit memos. After receiving the Rogers Supplementary Report, Mr. Harington acknowledged that his original calculation included four credit notes—totalling over [redacted]—that relate to years in which the Infringing Products were not sold. He therefore removed those credit notes from his calculation.

[143] Wenger submits that the above example illustrates a fundamental problem with Mr. Harington's approach. It maintains that Travelway bears the onus of proving on a balance of probabilities: (a) that the claimed costs were actually incurred; (b) the specific amount of the costs; and (c) that the costs are "directly attributable" to the production and sales of the Infringing Products—that is, that there is a causal nexus between the costs and sales from

passing off. Wenger argues that by not carefully reviewing the available evidence to attempt to limit deductions to only those that have a causal connection to the Infringing Products, Mr. Harington's approach is inaccurate and unreliable, aggressive in favour of Travelway, not evidence-based, and not "conservative" as he stated at the hearing. The same criticism, which is shared by Ms. Rogers, is levelled with respect to a host of other costs Travelway seeks to deduct.

[144] Travelway disputes that it bears the burden of proving the specific cost amounts incurred down to the penny. It submits that it would be excessive and unreasonable and, in many cases, simply not possible to meet this burden. Rather it says, once a cost has been proven to be incurred and directly attributable to the production and sale of the Infringing Products on a balance of probabilities, the calculation of that amount may rely on estimates. I agree.

[145] I defer to Mr. Harington's opinion that Ms. Rogers' treatment of the discounts claimed by Travelway is inconsistent with generally accepted accounting principles [GAAP] that state that revenue for any product "should reflect an allocation of all discounts" whereby any "variable consideration (i.e., discounts, rebates, refunds, credits, performance bonuses, penalties, contingencies, price concessions, etc.) is to be allocated, proportionately to all products sold." [Emphasis his.] I find Mr. Harington's opinion persuasive.

[146] I agree that a detailed review of each and every purchase transaction is not required in damages and accounting of profits matters. In most cases, the precise dollar amount of an infringer's profits cannot be determined with utter certainty nor would it be prudent for the Court to attempt such an exact calculation. Indeed, this limitation has long been recognized by the

courts. In *United Horse Nail Co v Stewart*, (1888), 5 RPC 260 (HL), Lord Watson made the following comments, at page 267:

> The object of inquiry, in a case like the present, is the quantum of injury done to the trade of the patentee by the illegal sales of the infringer. That must always be more or less matter of estimate, because it is impossible to ascertain with arithmetical precision, what, in the ordinary course of business, would have been the amount of the patentee’s sales and profits.

[147] The practice of using estimates and financial statements in intellectual property damage and profit quantification cases is perfectly acceptable where there is reasonable certainty that the expenses were in fact incurred: *IFP Technologies (Canada) Inc v EnCana Midstream and Marketing*, 2022 ABKB 807, paras. 54-56, 94-98; *Dubiner v. Cheerio Toys & Games Ltd*; 1965 CarswellNat 36 at paras 14-15.

[148] In commenting on some of the inconveniences associated with an accounting of profits, Justice Gilles Létourneau noted in *Reading & Bates Construction Co v Baker Energy Resources Corp*, 1994 CanLII 3524 (FCA), [1995] 1 FC 483: “The litigation is enormous, the expense is great, and the time consumed is out of all proportion to the advantage ultimately attained.”

[149] The “big picture” approach taken by Mr. Harington is entirely consistent with the object of Rule 3 of the *Rules*, which to secure the just, most expeditious and least expensive outcome of every proceeding, and take into consideration the principle of proportionality. This is in contrast to Ms. Rogers’ far too forensic analysis of various cost items on a per shipment or per transaction basis and her highly skeptical approach to the evidence. I agree with Mr. Harington that this approach would lead to an underestimation of the amount of costs to be deducted.

[150] Wenger submits that making estimates and drawing inferences in the infringer's favour without adequate proof would reward an infringer for incomplete, lost or destroyed records. However, that is not the case here. As explained further below, Travelway has established by way of its records and its witnesses that various costs linked to the Infringing Products were incurred by the company over the accounting period. There is no evidence, let alone any suggestion, that Travelway has engaged in concealment or spoliation of evidence, or otherwise deliberately failed to disclose any relevant information. In the end, if its evidence is shown to be deficient or insufficient, it only works to Travelway's disadvantage given that it bears the onus of proving on a balance of probabilities that the claimed costs were incurred.

(a) *Applicability of the Full Cost Method*

[151] In *Nova FCA*, the Court held at paragraph 164 that the full costs method is the appropriate approach to deducting costs in an accounting of profits, "absent some exceptional or compelling circumstance or persuasive expert evidence to the contrary in a particular case." As explained below, I find that no such circumstance or evidence has been established before me that would warrant deviating from the governing principle set out in *Nova FCA*.

[152] In her first mandate, Ms. Rogers was instructed to determine the total amount of revenue earned from the sale of the Infringing Products in Canada, the costs and expenses incurred for the purpose of producing, shipping, storing and selling them, and the difference between the two to arrive at net profits. In cross-examination, Ms. Rogers stated that she was aware of the concept of differential profits, and of the decision in *Nova FCA*, but did not consider a full cost method to be appropriate. Her reasons for so concluding are set out below.

> A …we're talking about a distributor. They bring in goods from China. They store it in their warehouse and then they ship it out to their customer. They would have a small, perhaps a small infrastructure necessary to support that. And so the more sales they have, the more profits they have. So this type of company, I say, operates on a break-even principle. They need to make a certain level of sales to cover their infrastructure costs, and then once they have reached that, and once they go over that, they then start -- then they don't have to recover their overhead costs anymore. The full amount of the profits that extend -- I call it the cream -- then goes straight down to the bottom line. And so if one were to take and allocate overhead costs to the cream, basically you're allowing the respondents to recover their overhead costs.

[153] Mr. Harington disagreed with Ms. Rogers' opinion that Travelway is merely a distributor, and testified as follows:

> A …Travelway is an entire product manufacturing company which designs everything, has all of the customer relationship and closeness with Walmart that we heard of yesterday. It simply doesn't manufacture the product itself. It outsources the manufacturing to China, which frankly, you know, many companies do. It is, however, is a complete business. [redacted]. It requires a lot of work and connection with Walmart. So all of the back office infrastructure contributes to the development of the revenues.

[154] I reject Ms. Rogers' opinion on this point and prefer the opinion of Mr. Harington. Ms. Rogers ignores the reality that Travelway did incur certain overhead costs which necessarily had to be incurred to produce the Infringing Products. As stated by Justice David Stratas in *Nova FCA* at paragraph 157: "While the fixed costs did not increase as a result of the infringement, it does not mean that they are not causally attributable."

[155] In contrast, Mr. Harington's opinion is well supported by the testimony of Gerald Shadeed. As Mr. Shadeed explained at the hearing, Travelway develops and designs products for

both in-house and licenced brands, has the bags manufactured by trusted suppliers, distributes them, and then works in partnership with many of its retail customers to manage their inventory. Travelway has an entire team within the organization that manages the replenishment arm of the supply to retailers by accessing their software to monitor sell-through for each store, placing new orders when inventory is dropping and assisting with analytics. In the case of Walmart, Travelway provides employees that work to assist with the planning and setup of modulars and displays before a new cycle begins. This evidence is uncontradicted.

[156] With a focus firmly on actual revenues and costs, I therefore conclude that Travelway should be permitted deductions for costs that are more likely than not linked with the production, promotion and sale of the Infringing Products using the full cost or absorption accounting approach.

[157] I pause here to note that in her second report, Ms. Rogers was instructed to accept costs that were previously deemed unreliable in her first report, and to apply a full cost method. However, she did not propose any calculation for differential profits and assumed in both reports that 100% of profits earned by Travelway are as a result of the use of the Infringing Marks.

[158] I will now address the issue of reliability and sufficiency of Travelway's evidence before turning to specific costs categories that remain in dispute.

(b) *Reliability of Travelway's Documents*

[159] Wenger objects to documents reproduced in the Joint Book of Documents [JBD] and received at trial being used in Travelway's favour as proof of deductions. The documents in question are the entirety of Volume II of the JBD and the bulk of Volume I, and include Excel spreadsheets, vendor agreements, marketing materials, and photographs [Hearsay Documents]. It is not disputed that these documents are hearsay and, therefore, presumptively inadmissible. Wenger clarified in its written submissions that its objections relate to the ultimate reliability of the Hearsay Documents, not their admissibility.

[160] Wenger submits that the onus was on Travelway to prove through evidence that the Hearsay Documents were created in the ordinary course of business, or the data entry practices used to generate the information in the document and their reliability, and that it failed to do so. Wenger further contends that since all records created after the commencement of litigation were done so with knowledge that Travelway might one day have to account for its profits earned on the Infringing Products, any gaps in Travelway's records of its costs are inherently suspect and the court should draw adverse inferences. I disagree. In my view, Wenger's arguments improperly conflate the concepts of reliability and sufficiency.

[161] As explained below, I find that the Hearsay Documents upon which Travelway relies to meet its burden to prove costs on a balance of probabilities are necessary and reliable as business records under section 30 of the *Canada Evidence Act*, RSC 1985, c C-5 [*CEA*]. Further, I find there is no basis to draw an adverse inference from any gaps in Travelway's records. The

evidence before me established that Travelway cooperated fully to disclose all relevant information; there was certainly no deliberate attempt to frustrate Ms. Rogers' efforts to prepare her reports and provide her opinion.

[162] The general rule prohibiting hearsay evidence has been succinctly stated as follows:

> Written or oral statements, or communicative conduct made by persons otherwise than in testimony at the proceeding in which it is offered, are inadmissible, if such statements or conduct are tendered either as proof of their truth or as proof of assertions implicit therein.
>
> Alan W. Bryant, Sidney N. Lederman & Michelle K. Fuerst, Sopinka, Lederman & Bryant: the law of evidence in Canada, 3rd ed (Markham: LexisNexis, 2009) at 229-230.

[163] Wenger points out that neither of Travelway's fact witnesses (Gerald Shadeed and Ms. Luff) had personal knowledge of the company's accounting and bookkeeping. It also submits that Travelway failed to call its controller, Johanne Jasmin, as a witness. Wenger submits that in the absence of any evidence as to how the Hearsay Documents were created, the Hearsay Documents should be given no weight. I find these submissions somewhat disingenuous, if not opportunistic given that Wenger knows all too well why Travelway had to make do with the witnesses it called at the hearing.

[164] To determine whether the hearsay evidence meets the statutory exception, the court may, pursuant to subsection 30(6) of the *CEA*, examine the documents and hear evidence as to the circumstances of the creation of the documents and draw any reasonable inference: *Boroumand v Canada*, 2016 FCA 313 at para 6.

[165] During a case management conference held on July 18, 2022, counsel for Travelway described difficulties his client was facing in wading through a decade of business records and in responding to Wenger's written interrogatories in a timely manner. Counsel explained that Travelway was seriously hampered in marshalling the required information as a result of the medical incapacity of Bruce Shadeed, the president of Travelway who had been its main representative throughout the proceedings, as well as the long-term absence of Ms. Jasmin due to family issues relating to the care of her adult daughter born with a severe health impairment.

[166] Gerald Shadeed testified that both his brother Bruce and Ms. Jasmin were essentially "out of commission" during the discovery process. This was still the case at the time the reference hearing was held. Bruce Shadeed's health had deteriorated even further and Ms. Jasmin was struggling with the recent passing of her daughter. There is no suggestion that either of these two witnesses were in a position to testify at the hearing.

[167] For the purpose of discovery, Gerald Shadeed turned to Ms. Luff, an employee who had been with the company for decades and had worked closely with Bruce Shadeed. Ms. Luff acknowledged in cross-examination that she did not have an accounting background, nor did she have personal knowledge of work performed in the accounting department during the period between 2008 and 2018. However, she testified that with the assistance of a team of employees, she was able to gather all the available financial documents of the company and to answer any of the financial questions that were required from Travelway. At the hearing, Ms. Luff authenticated the documents listed in Volume 1 of the JBD, including Travelway's financial statements from 2009 to 2019 (except for the year 2010, which could not be located), gross sales

reports and general ledgers generated from Travelway's enterprise resource planning [ERP] system for the same period. Despite the fact that Ms. Luff was not in a position to utter the "magic words", I infer from all the evidence before me, including the evidence described below, that the Hearsay Documents were created in the ordinary course of business.

[168] Gerald Shadeed testified about the process leading to the creation of Travelway's financial statements and who audited them. He stated that the company would provide its audited statements to the bank as part of their arrangement for financing and that, to his knowledge, the accuracy or validity of the information contained therein had never been questioned. His evidence in this regard was left unchallenged.

[169] I find that the audited financial statements have a high level of reliability or assurance despite the fact that the vast majority of them were created after the litigation commenced. They were prepared by an independent party who presumably ensured the statements adhered to general accounting principles and auditing standards. There is also no hint of adjustments or manipulations made to the financial statements on an arbitrary basis over the course of the accounting period. More significantly, Ms. Rogers did not question the <u>reliability</u> of the financial statements, nor for that matter Travelway's general ledger [GL], costing reports, annual gross sales reports, and reports of monthly sales. In fact, she was able to confirm that the sum of all of the transactions recorded in GL reconciles or agrees to the sum of the net income reported in Travelway's financial statements. Ms. Rogers was instead critical of the <u>sufficiency</u> of Travelway's evidence. She did not consider the records and information obtained during discovery reliable enough to substantiate any selling costs and incremental administrative

expenses incurred relating to the sale of the Infringing Products. She therefore did not take these costs into consideration in calculating Travelway's profits.

[170] To the extent Wenger is suggesting that in order to meet the threshold reliability requirement for the documents to be admissible under s. 30 of the *CEA*, Travelway should have addressed each document individually during the trial to explain who authored the documents, how the information was entered into the document or Travelway's ERP system, and whether the document was created by individuals acting under a duty to do so, I disagree. This is not the applicable standard to be met in order to accept the documents as admissible under the business records exception. If it were, the very purpose of this exception, to avoid the cost and inconvenience of calling the record keeper and maker would be wholly frustrated.

[171] Travelway has established to my satisfaction that the Hearsay Documents are business records. Business records are *prima facie* proof of facts stated therein, and anyone challenging their accuracy is free to call witnesses to do so: *Ares v Venner*, 1970 CanLII 5 (SCC), [1970] SCR 608, at p 626.

[172] In respect of a second category of documents, such as credit reports and individual credit memos, Ms. Luff explicitly testified as to how they were prepared in the ordinary course of business. Any other documents relied upon by Travelway that were not prepared in the ordinary course of business were addressed by its witnesses. For example, in the case of Travelway's sales reports reflecting both gross sales and net sales after deduction of discounts, Ms. Luff

testified as to what portions of the document were generated directly from the ERP system and the portions that she added in for the purpose of the litigation.

[173] Wenger had ample opportunity to cross-examine Travelways' witnesses on any issue relating to the creation of the documents in question, yet no legitimate doubts or concerns were raised regarding the reliability of the Hearsay Documents or other documents upon which Travelway relies.

(c) *Gross Profits*

(i) Credit memo discounts

[174] Wenger criticizes Travelway for not producing a list of credit memos specifically relating to the Infringing Products, or a vendor agreement with Canadian Tire. However, there is a simple explanation for this. Ms. Luff testified that it was not possible to generate a report with credit memos attributable to the Infringing Products only. Instead, Travelway produced three different types of documents - individual credit memos from Walmart, Canadian Tire and Costco during the period where the Infringing Products were sold, as well as reports from its ERP system listing each credit memo received and the corresponding discount provided. Ms. Luff also generated reports from the ERP system listing Travelway's total gross and net sales for each of its products, as well as its gross and net sales for the Infringing Products. To this report, she added a calculation of the effective discount rate for Walmart and Canadian Tire on Travelway's total gross sales (i.e. the percentage difference in net sales and gross sales once credit memo discounts are deducted), and applied that discount rate to the gross sales for Infringing Products.

[175] I find that Travelway has produced sufficient reliable evidence to prove, on a balance of probabilities, the credit memo discounts claimed in the "real world."

[176] Mr. Harington explained during his testimony that Ms. Rogers' approach of attempting to isolate each individual credit memo that is attributable to the Infringing Products and apply the discount percentages in the vendor agreement is incorrect.

> A. This is really the difference between us, where I say with respect to credit memos that you need to look at all of them and allocate them across all sales, whereas Ms. Rogers says no, I'm not going to include the volume discounts, I'm not going include other things, I'm just going to take some of the discounts. That's not right, in my opinion.

[177] As I have already found based on Mr. Harington's opinion, the correct approach to recording discounts (including credit memos) is to take all the discounts expected to be achieved and allocate them across all the sales *pro rata*. This is what Mr. Harington did to calculate customer allowances to vendors such as Walmart and Canadian Tire. This ensures that the discounts that were actually given are fully considered, including those that may not appear in credit memos, such as a volume rebates.

[178] While it may that some credit memos applied mostly to non-infringing products, it is just as likely that other credit memos applied mostly to the Infringing Products. This was considered under Mr. Harington's approach. As a result, I accept Mr. Harington's amount of [redacted] for credit memo deductions. Given the experts agree on net revenues, this deduction would result in a gross margin of [redacted].

(ii) O&M costs

[179] Ms. Rogers carved out O&M costs identified on the costing sheets produced by Travelway from her COGS calculation because, while they were shown on the detailed costing sheets she used for her calculation, Travelway was unable to provide documentation to support the amounts, describing them instead as a "provision" to cover such costs as wrapping supplies, lab testing, marine insurance, sample costs, a portion of inland freight and gain or loss on foreign exchange. In contrast, Mr. Harington relied on Travelway's gross margin reports and financial statements and deducted a percentage of the said costs listed in the cost of sales sections. The percentage deducted is based on the revenues generated in respect of the Infringing Products as a proportion of the total luggage revenues.

[180] Based on the evidence before me, I find that Travelway has established, on a balance of probabilities, that the O&M costs claimed were incurred. As admitted by Ms. Rogers, the O&M costs are unquestionably additional incremental expenses. The experts simply differed in how they should be calculated. Since Mr. Harington's number is lower than even the lowest number calculated by Ms. Rogers, I accept Mr. Harington's figure.

(d) *Other Cost Categories*

[181] Mr. Harington calculated each of the following categories of costs incurred by Travelway in generating sales of the Infringing Products:

(a) Royalty payment of [redacted] paid by Travelway for the use of the Infringing Marks. This is calculated as [redacted] of the Unreplaced Sales.

(b) Customer allowances of [redacted] paid by Travelway to Walmart. These allowances are calculated for each year by Travelway for Walmart as a whole and include new store discounts, defective merchandiser discounts, volume discounts, advertising allowance and business development fund, as set out in the Vendor Agreement with Walmart as well as a [redacted]% cash discount. The actual amount in each year varies based on the specific activities of Walmart in that year and range from [redacted]% to [redacted]% over the period.

(c) Other Incremental costs of [redacted] incurred by Travelway as a result of the Unreplaced Sales. These comprise other costs incurred by Travelway that would not have been incurred by Travelway had it not made the sales in question. Mr. Harington calculated that Travelway's other incremental costs vary between [redacted]% and [redacted]% of Unreplaced Sales revenues.

(d) Allocated overhead costs that include other operating costs incurred by Travelway that were related to the generation of the sales in question. Mr. Harington selected those operating cost categories other than those already included above as incremental. By including these costs, any change in those costs identified as incremental simply results in a re-allocation between cost categories, without affecting the overall profit conclusion. Reflecting the above, Mr. Harington calculated that Travelway's allocable overhead costs to vary between [redacted]% and [redacted]% of net revenues.

[182] For the sake of conciseness and to avoid repetitiveness, I will focus on the categories of costs that were particularly contentious. For all other cost categories, the parties should assume that I have found that Travelway has established, on a balance of probabilities, that the costs were incurred and that I have accepted the methodology used by Mr. Harington to determine their allocation.

[183] Given that I have already addressed the matter of O&M costs, I would simply clarify that I accept Mr. Harington's opinion that there is no double-counting in taking into account these costs in calculating direct costs.

(i) Royalties

[184] Mr. Harington calculated royalty payments paid by Travelway for the use of the Infringing Marks as [redacted]% of the Unreplaced Sales. The license agreement Travelway relies on is between World Connect and a non-party to this proceeding, Super Creation Ltd, a Hong Kong entity. The agreement licenses to Super Creation the right to use three registered trademarks: the "SKROSS" word mark, the "-K and design" mark, and the "Swiss Travel Products and design" mark.

[185] Wenger submits that the claimed [redacted]% of gross revenues to be deducted for royalty payments or "license fees" cannot be allowed for the following reasons. First, because there is no

evidence of any license associated with the Infringing Marks. Second, Travelway is not entitled to now seek to deduct such license fees to World Connect or tender evidence that could show that it paid them since Travelway is not a party to the license agreement. Third, Gerald Shadeed’s attempt to explain why Travelway licensed and paid fees for a design mark it barely used is baffling on its own terms. I disagree.

[186] Gerald Shadeed was cross-examined extensively at the hearing as to why Travelway considered itself legally bound to pay royalties to World Connect for the use of the brand name STP. He explained that Travelway already had a business relationship with World Connect when the licence was signed. Travelway had supplied business bags to World Connect and was also the North American distributor for their travel adapter products. Travelway agreed to help World Connect to design a line of luggage and travel bags as an expansion to their existing Swiss Travel Products product line. Travelway chose to use the Infringing Marks, but kept the brand name STP, the only word element of the STP Design. Travelway also used the STP Design on hangtags and point of purchase materials. It is only logical that if Travelway had decided to commercialize luggage and travel accessories using the STP brand name without paying royalties to World Connect, there could have been serious consequences, including being exposed to allegations of trademark infringement by World Connect.

[187] In my view, it is irrelevant why Travelway felt bound to pay royalties to World Connect for use of the words SWISS TRAVEL PRODUCTS. The evidence before me establishes that Travelway did in fact paid royalties and used the brand name in conjunction with the Infringing

Marks. Travelway produced royalty reports and royalty statements as evidence of the amounts paid. In the circumstances, I find that the amount of [redacted] is a proper deduction.

(ii) Bad Debts

[188] Travelway submits that write-offs for bad debts affect the entirety of the business. It says that where invoices representing a significant sum of money are left unpaid, this will not just affect the product line or product lines in question; other aspects of the business will necessarily suffer or have to make up for this loss.

[189] Ms. Rogers made no deduction for bad debts from Travelway's profits. She explained that bad debts are not a common cost; they relate to specific unpaid invoices to specific customers for specific products. While I find that the GAAP do not support any such general proposition, I agree that in this case, the bad debts claimed by Travelway are a "significant one-off item", a term used by Mr. Harington in accepting that there may be exceptions when allocating costs.

[190] Travelway was unable to identify the specific customer invoices that relate to the bad debt in the amount of [redacted] and whether the Infringing Products were included on the invoice or not. In fact, in discovery, Travelway provided a detailed analysis of the bad debt number appearing in its financial statements, which showed that the biggest debt is for Target—a customer who never purchased Infringing Products.

[191] Since Travelway has not established that the bad debts in question have any link whatsoever to the Infringing Products, the deduction for bad debts is rejected.

(iii) Professional and Consulting Fees

[192] Under her supplementary mandate, Rogers deducted [redacted] for professional and consulting fees. Harington instead deducted the amount of [redacted]. His calculation is based exclusively on the financial statements and assumes all of Travelway's professional and consulting fees are common overhead expenses. Ms. Rogers explained, by reference to the GL accounts, that some of Travelway's professional and consulting fees would be properly considered overhead (e.g. audit expenses and general corporate legal fees) while others relate directly to specific products and brands. I agree with Ms. Rogers that the latter are not common overhead expenses.

[193] The professional and consulting fees that Harington treats as overhead include Travelway's legal fees related to this litigation, and a variety of other legal expenses that explicitly relate to non-infringing products. Costs of the litigation have already been awarded to Wenger. Wenger should not be required to indirectly indemnify Travelway for its litigation costs by treating them as overhead and reducing the profits disgorged. Nor should Travelway be able to benefit from a deduction for legal expenses shown to relate to other products. I prefer Ms. Rogers' opinion on this issue.

(iv) Market Development

[194] Wenger submits that there should be no deduction for any portion of market development costs. As recorded in Travelway's financial statements, these costs all relate to Globalway Accessories LLC—an entity that, according to Travelway, held the licences for Disney, Marvel and Lucas. According to Wenger, these are direct costs for non-infringing products and not allocable common overhead. I disagree.

[195] Ms. Luff explained during her testimony that market development relates to Travelway's office space in New York and salaries for employees that work on developing and generating sales in the U.S. market. Generating sales for the business is a common business expense. Similar to advertising and promotion, this elevates the business as a whole, regardless of whether or not some of the publicity and promotion being done relates to brands other than the Infringing Products. As a result, I accept Mr. Harington's calculation of [redacted] (before Replacement Sales).

(v) Advertising and Promotion

[196] Under her supplementary mandate, Ms. Rogers deducted [redacted] for advertising and promotion costs allocated to the Infringing Products. Noting that she did not have sufficient evidence to support a specific amount in this category, Ms. Rogers estimated that between [redacted] and [redacted] per annum of the advertising and promotion costs could be common expenses relating to luggage revenues. Ms. Rogers assumed that in light of Travelway's business model, much of its advertising relates to specific brands it sells (e.g. Disney, Marvel, Air

Canada) rather than general advertising and promotion. Her estimate resulted in a deduction between [redacted] and [redacted]. In contrast, Harington’s approach of treating all costs as allocable without removing direct costs of non-infringing products and unrelated customers led him to deduct [redacted] in this category.

[197] I find that Ms. Rogers methodology for determining her calculation for advertising and promotion is somewhat arbitrary and does not lead to an accurate result. I prefer Mr. Harington’s approach that assumes that spending on advertising and promotion for the Infringing Products will be proportional to the percentage of total luggage revenues these products account for.

(vi) Donations

[198] Mr. Harington included “Donations” as allocable overhead costs. Ms. Rogers excluded this item because in her opinion they are not a common overhead cost that should be allocated to the Infringing Products, given that donations are voluntary. I disagree. Although such costs are voluntarily, they are nonetheless incurred for the purpose of building the reputation and goodwill of the business.

VI. Concluding Remarks

[199] The findings above require recalculation of the amount to be awarded to Wenger. I hesitate to perform them myself given the intricacies involved.

[200] The matter is remitted to the parties and their accounting experts to run the numbers in accordance with these reasons, to calculate pre-judgment interest on the award amount on the agreed upon rate as of the date of the interim report and provide a per diem rate for the period thereafter, and report back to me.

[201] In the meantime, the parties are requested to advise what portions of the interim report contain confidential information that should be redacted from the public version. The parties are also encouraged to reach agreement on costs. If they are unable to reach agreement, they may file written submissions on costs not exceeding 5 pages in length, a bill of costs and any written offer to settle that may attract the cost consequences of Rule 420. The matter of costs shall be adjudicated in writing before the final report is signed and filed in accordance with Rule 161(2) of the *Rules*, at which point appeal rights will be triggered.

[202] A summary of my findings shall be incorporated in the penultimate paragraphs of the final report. I remain seized only to determine the final award amount and the issue of costs, not to revisit my reasons.

"Roger R. Lafrenière"

Judge

FEDERAL COURT

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