

Federal Court



Cour fédérale

Date: 20090916

Docket: T-1035-06

Citation: 2009 FC 909

Ottawa, Ontario, September 16, 2009

PRESENT: The Honourable James K. Hugessen

BETWEEN:

UNDERWRITERS LABORATORIES INC.

Plaintiff

and

**SAN FRANCISCO GIFTS LTD.,
SAN FRANCISCO RETAIL GIFTS INCORPORATED
(previously called SAN FRANCISCO GIFTS INCORPORATED),
SAN FRANCISCO GIFT STORES LIMITED,
SAN FRANCISCO GIFTS (ATLANTIC) LIMITED,
SAN FRANCISCO STORES LTD.,
SAN FRANCISCO GIFTS & NOVELTIES INC.,
SAN FRANCISCO GIFTS & NOVELTY
MERCHANDISING CORPORATION
(previously called SAN FRANCISCO GIFTS AND
NOVELTY CORPORATION),
SAN FRANCISCO (THE ROCK) LTD.
(previously called SAN FRANCISCO NEWFOUNDLAND LTD.),
SAN FRANCISCO RETAIL GIFTS &
NOVELTIES LIMITED (previously called
SAN GIFTS & NOVELTIES and BARRY SLAWSKY**

Defendants

REASONS FOR ORDER AND ORDER

Introduction

[1] These are two motions brought by the defendants appealing two separate orders made by the case management prothonotary dismissing, in one case in its entirety, in the other in part, two motions brought by the defendants. The first motion sought the dismissal of the plaintiff's action for delay; the second sought to strike out certain parts of the statement of claim. While the motions were heard and disposed of separately by the case management prothonotary, the motions in appeal of those orders were heard together and are disposed of in the present Reasons.

The motion to dismiss for delay

[2] The action was brought in June 2006 and has thus been pending for over three years. It has not progressed very far although I was informed at the hearing that documentary discovery is imminent and that oral examinations should follow shortly thereafter. The prothonotary carefully reviewed the various steps which had been taken since the start of the action. She found that a substantial portion of the delay had been caused by the fact that the action had been stayed on a number of occasions at the request of the parties. Since a stay can only be obtained by order of the Court the prothonotary was correct to hold that, absent bad faith or fraud on the part of the plaintiff, of which there was no evidence, the plaintiff could not be held responsible for delays so caused. She also found that a further substantial period of time lost was due to the defendants having brought a motion (the same motion which is the subject of the second appeal) which was irregular in form and required considerable time to correct and arrange a hearing date. This too was clearly not plaintiff's fault. She also found that plaintiff should not be held responsible for delays due to the running of the

normal time periods allowed by the rules for the taking of various steps in the litigation process.

There is no reviewable error in these findings.

[3] As a result of her examination of the record the prothonotary concluded that only some four months of delay should be laid at plaintiff's door and that in the circumstances this delay was neither inordinate nor inexcusable. Although the point was not strictly speaking essential, the motion under Rule 167 not being a regular status review, the prothonotary also noted that the plaintiff was not in default of any scheduling order.

[4] Finally, the prothonotary declined to consider the defendants' evidence of alleged prejudice due to the delay although she noted in passing that she considered such evidence to be of little value or weight. I agree with that assessment. Indeed, with respect for certain dicta to the contrary, it is my view that prejudice to other parties is not a necessary component of a decision that a plaintiff's action has been unduly delayed and should be dismissed; put briefly, evidence of prejudice to other parties is relevant but not essential to an order of dismissal for delay.

[5] Assuming that a discretionary decision not to dismiss an action for delay falls into the category of decisions which are of a nature to affect the final outcome of the case requiring a reviewing court to exercise its own discretion *de novo*, my own discretion would not lead me to any different conclusion than that of the prothonotary. I can find no error of law or other reviewable flaw in her reasoning or conclusions. I specifically reject the argument advanced by defendants' counsel to the effect that a plaintiff's obligation to move the case forward is in effect an obligation of

result and that the court should look behind the various stay orders that were given herein and the other delays which were the responsibility of the defendants themselves and dismiss the plaintiff's action simply on the basis that the plaintiff might possibly have done more to force the matter forward. The rules of civil procedure are designed to provide a just and expeditious solution to a dispute on its merits, not to lock the parties into a rigid timetable which forces them into a headlong rush to a conclusion without regard for the consequences.

[6] The first appeal will be dismissed.

The motion to strike

[7] While there were a number of questions raised by defendants in their motion to strike before the prothonotary, only two of them were put in issue in the appeal: the adequacy of the allegations raising the personal liability of Mr. Slawsky and the propriety of the allegation of prior criminal conviction of one of the corporate defendants.

[8] Dealing first with the question of the allegations of personal liability against Mr. Slawsky, it is clear that this aspect of the motion before the prothonotary was based on Rule 221(1)(a): that no cause of action against Mr. Slawsky was pleaded in the statement of claim. That is unambiguously stated in para. 2 of the "grounds" section of the defendants' motion dated February 13, 2007. Both before the prothonotary and again on the appeal before me defendants' counsel attempted to "bootleg" into the record affidavit evidence of the extent of Mr. Slawsky's personal involvement, or

lack of it, in the activities of the corporate defendants. That is in direct breach of the prohibition contained in Rule 221(2).

[9] Defendants' counsel attempts to overcome this difficulty by saying that his motion is also based on Rule 221(1)(f). It is argued that to implead a defendant without alleging a cause of action against him is an abuse of process. The argument is unacceptable. As already shown, it is in direct contradiction of defendants' own motion materials. It also ignores the clear wording of Rule 221(1)(f) which by the use of the word "otherwise" appears to exclude from the possible abuses of process which may be raised under that paragraph any which can and should be raised under the preceding paragraphs, all of which, depending on the circumstances, may constitute an abuse of the court's process. The defendants' motion to strike, as required by Rule 221(2) must be judged solely on the basis of the allegations of the statement of claim and particulars, which are assumed for these purposes to be proved, but without considering any evidence. To do otherwise would convert a simple preliminary motion on a question of law into a disguised form of summary judgment motion.

[10] The relevant allegations are found in paras. 49-51 of the statement of claim as particularized and read as follows:

49. Slawsky, through Laurier Investments owns 100% of SFG Ltd. and through it, all other Defendants. He is also the president and sole director of each of the Defendants. Slawsky is the driving force and directing mind of San Francisco.

50. Slawsky executed both the Minutes of Settlement and Undertaking on behalf of San Francisco. Therefore, Slawsky had prior knowledge of the existence of the UL Certification Mark and San Francisco's agreement to cease offering for sale and selling merchandise bearing counterfeit reproductions of the UL

Certification Mark. In addition, Slawsky was aware of the Alberta Provincial Court's observation that San Francisco's importation and sale of, *inter alia*, electrical products bearing counterfeit labels bearing the UL Certification Mark constituted "a despicable fraud on the public". Nevertheless, Slawsky, through San Francisco, continues to offer for sale and sell uncertified electrical products bearing unauthorized and counterfeit reproductions of the UL Certification Mark in knowing or reckless and callous disregard of UL's rights in the UL Certification Mark and the potential fraud on the consuming public from the sale of the San Francisco Electrical Products.

51. Alternatively, Slawsky, as the directing mind of San Francisco, caused it to engage in the wrongful conduct particularized above, knowing or recklessly disregarding that he, through San Francisco, was misleading the public and damaging UL's reputation and business.

[11] In my view these allegations go well beyond the simple assertions of directorial management and control which were found to be insufficient in the cases of *Mentmore Manufacturing Co. v. National Merchandise Manufacturing Co.* (F.C.A.), [1978] F.C.J. No. 521 and *Kastner v. Painblanc* (F.C.A.), [1994] F.C.J. No. 1671 to found personal liability of a director and controlling shareholder. The following words of Mr. Justice LeDain in the former case are instructive:

[28] I do not think we should go so far as to hold that the director or officer must know or have reason to know that the acts which he directs or procures constitute infringement. That would be to impose a condition of liability that does not exist for patent infringement generally. I note such knowledge has been held in the United States not to be material where the question is the personal liability of directors or officers. See Deller's Walker on Patents, 2nd ed., 1972, vol. 7, pp. 117-118. But in my opinion there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it but the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it. The precise formulation of

the appropriate test is obviously a difficult one. Room must be left for a broad appreciation of the circumstances of each case to determine whether as a matter of policy they call for personal liability. Opinions might differ as to the appropriateness of the precise language of the learned trial Judge in formulating the test which he adopted - - “deliberately or recklessly embarked on a scheme, using the company as a vehicle to secure profit or custom which rightfully belonged to the plaintiffs”- - but I am unable to conclude that in its essential emphasis it was wrong. [...]

[12] I conclude, as did the prothonotary, that the quoted allegations if proved are sufficient to permit the reasonable conclusion that Slawsky’s personal liability is engaged by his knowing and deliberate conduct in causing the breach of the plaintiff’s intellectual property rights.

[13] The second aspect of the defendants’ motion to strike arises from para. 32 of the statement of claim:

32. On or about December 30, 2004 San Francisco pleaded guilty to charges under section 42 of the *Copyright Act* including one (1) count arising from San Francisco’s sale of electrical products bearing a counterfeit safety certification label depicting the UL Certification Mark.

[14] It is said that this allegation is both irrelevant and highly prejudicial. The argument, as I understand it, is that since the pleaded plea of guilty and conviction were in relation to the *Copyright Act* and the present claim is for Trade Mark infringement there is simply no relationship between the allegation and the present claim. With respect, I do not agree. It is a commonplace that there may be copyright in a trade mark. Again, the allegation must, for the purposes of this motion, be taken as proven and it makes it plain that, whatever the statutory basis of the defendants’ proven and admitted criminality, the facts giving rise thereto are identical in each case, namely the sale of

electrical products bearing a counterfeit version of the plaintiff's well known UL Certification mark. While that allegation may well be prejudicial to the defendants, it is manifestly extremely relevant to the issues in the present action as an admission of previous conduct identical to what is alleged here. I know of no rule which would exclude evidence of such conduct. This is not "similar fact" evidence but evidence of the prior commission of the very illegal act which is the subject of the present action.

[15] The second appeal motion will also be dismissed.

Costs

[16] The plaintiff should have its costs of each motion. Those costs should be separately assessed since the motions were separately brought and contested and were only brought together for hearing at the very end; the time of hearing should be divided equally between the two motions.

[17] In addition, while I do not think that the appeals raised any particularly difficult or important questions of law so as to justify an award of costs above the usual scale (Column III) it is my view that neither motion should have been brought. The case management prothonotary had had the carriage of this case for over two and a half years; she was intimately familiar with all the details of the case and her orders under appeal dealt with relatively routine matters of procedure. To appeal such orders as the defendants did without a solid basis in law simply adds to the expense and delay of litigation. The defendants shall pay plaintiff's costs forthwith and in any event of the cause.

ORDER

THIS COURT ORDERS that the appeals of the case management prothonotary's Orders of June 23, 2009 and July 2, 2009, are both dismissed with costs to be assessed and payable forthwith and in any event of the cause.

“James K. Hugessen”

Deputy Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1035-06

STYLE OF CAUSE: UNDERWRITERS LABORATORIES INC. v.
SAN FRANCISCO GIFTS LTD., et al

PLACE OF HEARING: OTTAWA, ONTARIO

DATE OF HEARING: SEPTEMBER 11, 2009

**REASONS FOR ORDER
AND ORDER:** HUGESSEN D.J.

DATED: SEPTEMBER 16, 2009

APPEARANCES:

Brian Isaac

FOR THE PLAINTIFF

Michael D. Andrews
Nyall Engfield

FOR THE DEFENDANTS

SOLICITORS OF RECORD:

SMART & BIGGAR
Toronto, Ontario

FOR THE PLAINTIFF

ANDREWS ROBICHAUD
Ottawa, Ontario

FOR THE DEFENDANTS