

Federal Court



Cour fédérale

Date: 20121123

Docket: T-943-11

Citation: 2012 FC 1355

Ottawa, Ontario, November 23, 2012

PRESENT: The Honourable Mr. Justice Manson

BETWEEN:

**MICHAEL KORS, LLC AND MICHAEL KORS
(CANADA) CO.**

Plaintiffs

and

BEYOND THE RACK ENTERPRISES INC.

Defendant

REASONS FOR JUDGMENT AND JUDGMENT

[1] The Defendant, Beyond the Rack Enterprises Inc. [BTR] appeals three orders of Madam Prothonotary Milczynski dated September 21, 2012 seeking to:

- A. Set aside the Order of the Prothonotary Milczynski dismissing BTR's motion to strike out paragraphs 1(d), (e), (vii) and (g), 1(e) (ii)-(iv), 1(f), 1(i), 9-18 inclusive, 19(b)-(e), 21 and 31(c) of the Plaintiffs' Further Amended Statement of Claim, except to the extent they relate to claims other than the trade-mark infringement and passing off without leave to amend;

- B. Strike out the Impugned Claims pursuant to Rule 221(f), or in the alternative Rule 221(a);
- C. Set aside and vacate the Order of Prothonotary Milczynski granting the Plaintiffs' motion for a further and better affidavit of documents from BTR;
- D. Set aside the Order of the Prothonotary Milczynski to amend the Protective Order dated June 21, 2012 to include a "Counsel's Eyes Only" provision, and to issue a Confidentiality Order to the same effect;
- E. Amend the Protective Order dated June 21, 2012 to include a "Counsel's Eyes Only" provision;
- F. Fix costs of the motion and payable forthwith.

[2] Counsel for the Defendant has admitted that if the motion to strike the claim as set out above fails, then the motion for a further and better production should also fail.

I. Standard of Review

[3] While there was some dispute as to the standard of review in this matter, I accept and adopt the test to be applied on a review with a discretionary decision of Prothonotary Milczynski is the one reformulated by the Federal Court of Appeal in *Merck & Co Inc v Apotex Inc*, 2003 FCA 488 at para 19, [2003] FCJ No 1925:

To avoid the confusion which we have seen from time to time arising from the wording used by MacGuigan J.A., I think it is appropriate to slightly reformulate the test for the standard of review. I'll use the occasion to reverse the sequence of the proposition as originally set out, for the practical reasons that a judge should logically determine first whether the questions are vital to the final issue: it is only when they are not that the judge affectively needs to engage in the process determining whether the orders are clearly wrong. The test would

now read: Discretionary orders of Prothonotaries ought not to be disturbed on appeal to a judge unless:

- (a) the questions raised in the motion are vital to the final issue of the case, or
- (b) the orders are clearly wrong, in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts.

[4] As Madam Justice Sandra J. Simpson stated in *Sanofi-Aventis Canada Inc v Teva Canada Inc Ltd*, 2010 FC 1210, [2010] FCJ No 1503 at paras 27 and 28:

...one looks at the order made by the Prothonotary and only reviews it *de novo* if it has, in fact, had an impact on the trial that could be categorized as vital.

[5] Therefore, if the question issue is not vital to the final determination of the case, the Court must consider whether the “Orders were clearly wrong” before disturbing them, which is a deferential standard (see *Canada (Attorney General) v United States Steel Corp*, 2011 FC 226 at para 15, [2011] FCJ No 279).

[6] It is my determination that none of the three issues are vital to the final determination of the case. Therefore the issues will be decided on whether or not the Prothonotary can be demonstrated to have been “clearly wrong,” in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts.

II. Issues

A. *Should the Impugned Paragraphs of the Statement of Claim be Struck?*

[7] The pleading or portions of the pleading should not be struck unless it is “plain and obvious” that it discloses no reasonable cause of action (see *Hunt v Carey Canada Inc*, [1990] 2 SCR 959 at page 980, [1990] SCJ No 93).

[8] Moreover, as cited by the Federal Court of Appeal in *Montana Band v Canada*, 2002 FCA 331 at para 7, [2002] FCJ No 1257:

We would like to emphasize once again the heavy burden upon litigants seeking to overturn an interlocutory order by a case management judge. This Court is loathe to interfere with interlocutory orders in any case due to the delay and expense which such appeals add to any proceeding. This is all the more so where an appeal is taken from an interlocutory decision of a case management judge who is intimately familiar with the history and details of a complex matter. Case management cannot be effective if this Court intervenes in any but the "clearest case of a misuse of judicial discretion" to echo the words of Mr. Justice Rothstein in *Sawridge Indian Band et al v Canada*, 2001 FCA 339, (2001) 283 NR 112.

[9] On this front, Defendant’s counsel submits that the claim lacks material facts in support of the bald allegations that make up the impugned claims of trademark infringement and passing off in the alleged facts in paragraphs 9 to 18 of the further Amended Statement of Claim. It is argued that these are bold and speculative allegations and not material facts that support the causes of action for passing off and trademark infringement and that the action is a “fishing expedition”. The Defendant argues that an action cannot be brought on assumptions and speculation that something “will turn up” in discovery. Defendant’s counsel refers to paragraph 12 of his written representations concerning the cross examination of the representative for the Plaintiff, Ms. Grodnitzky, to support the Defendant’s position.

[10] The Defendant's position is that the facts, as pleaded, and in view of the evidence on this cross examination of Ms. Grodnitzky, are not a proper pleading of material facts.

[11] The Defendant's Statement of Defence denies selling unauthorized Michael Kors products and alleges that it only sells genuine Michael Kors brand of products and therefore has not infringed any trademark rights of the Plaintiffs or been involved in any passing off. In the Plaintiffs' Reply to the Defence, it is the Plaintiffs' position that Michael Kors is not aware of any genuine Michael Kors products being sold in Canada outside of Michael Kors authorized distribution channels and in paragraph 8, specifies that it is the Plaintiffs' position that the Defendant is not selling "genuine" or "legitimate" Michael Kors products on the BTR website.

[12] I have considered the facts as pleaded in this case, as well as the evidence submitted on cross examination during the motion for further and better production on discovery, and I agree with Prothonotary Milczynski that it cannot be said that the claim is so bereft of material facts so as to constitute an abuse or a fishing expedition. Having regard to the pleadings as a whole, and particularly paragraphs 9 to 18 of the Statement of Claim, sufficient material facts have been pleaded in to sustain the claims for trade-mark infringement and passing off and the action should proceed. If the Defendant has a legitimate defences of grey market goods and exhaustion of rights, then that will clearly be grounds for the Defendant to prove as the action proceeds.

B. *Should the Order for the Documents Productions Stand?*

[13] Given the Defendant's counsel's agreement that if Prothonotary Milczynski's decision is upheld with respect to striking the causes of action in the Statement of Claim, then the Order for further production on discovery is not disputed and that Order stands.

C. *Should the Protective Order be Amended?*

[14] Finally, with respect to the motion for an Order pursuant to Rule 151 and 152 to amend the Protective Order dated June 21, 2012 to include a "Counsel's Eyes Only" provision, again, I do not find that Prothonotary Milczynski exercised her discretion on any purely wrong principle. The fact that two in-house counsel for the Plaintiffs may have access to the documents and information to instruct external counsel is reasonable in the circumstances of this case therefore, the order, as issued, is appropriate in this case.

[15] For all the above reasons, I dismiss the Defendant's motion with costs to the Plaintiffs in the cause.

JUDGMENT

THIS COURT'S JUDGMENT is that the Defendant's motion is dismissed with costs to the Plaintiffs in the cause.

“Michael D. Manson”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-943-11

STYLE OF CAUSE: Michael Kors, LLC et al. v. Beyond the Rack Enterprises Inc.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: November 19, 2012

REASONS FOR JUDGMENT AND JUDGMENT BY: MANSON J.

DATED: November 23, 2012

APPEARANCES:

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Patrick Cotter	FOR THE DEFENDANT
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