Federal Court of Appeal  Cour d'appel fédérale

Date: 20130417

Docket: A-526-12

Citation: 2013 FCA 107

CORAM: **EVANS J.A.**
STRATAS J.A.
NEAR J.A.

BETWEEN:

BEYOND THE RACK ENTERPRISES INC.

Appellant

and

MICHAEL KORS and
MICHAEL KORS (CANADA) CO.

Respondents

Heard at Toronto, Ontario, on April 17, 2013.

Judgment delivered from the Bench at Toronto, Ontario, on April 17, 2013.

REASONS FOR JUDGMENT OF THE COURT BY: EVANS J.A.

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REASONS FOR JUDGMENT OF THE COURT
(Delivered from the Bench at Toronto, Ontario, on April 17, 2013)

EVANS J.A.

[1] This is an appeal by Beyond The Rack Enterprises Inc. (BTR) from a decision of the Federal Court (2012 FC 1355) in which Justice Manson (Judge) dismissed a motion brought by BTR under rule 51 of the *Federal Courts Rules*, SOR/98-106 appealing a decision of Prothonotary Milczynski (Prothonotary), dated September 21, 2012.

[2] In that decision, the Prothonotary dismissed BTR's motion to strike paragraphs from the Further Amended Statement of Claim of Michael Kors and Michael Kors (Canada) Inc. (MK). The

impugned paragraphs assert that BTR had infringed MK's trade-marks by using them without authorization and in connection with goods that were not authentic MK products.

[3] BTR's motion alleged that these paragraphs constituted an abuse of process (rule 221(1)(*f*)) or disclosed no reasonable cause of action (rule 221(1)(*a*)). BTR denied that it was selling inauthentic MK goods and alleged that it had acquired them, directly or indirectly, from an authorized distributor.

[4] The Prothonotary found, and the Judge agreed, that MK had pleaded sufficient material facts that its claims for trade-mark infringement and passing off should not be struck on the ground that they could not succeed or constituted an abuse of process as a "mere fishing expedition".

[5] BTR made two submissions in oral argument before this Court. First, since the question before the Prothonotary was "vital" to the final outcome of the case, the Judge should have conducted a *de novo* review of the Prothonotary's decision. Instead, counsel argued, the Judge only asked whether the decision was "clearly wrong" in the sense that the Prothonotary had based her exercise of discretion on a wrong principle or a misapprehension of the facts.

[6] We disagree. While indicating that he could only intervene if the Prothonotary's decision was "clearly wrong" in the above senses, the Judge in fact applied a *de novo* standard of review. Thus, he said (at para. 12) that he agreed with the Prothonotary's view that the claims were not so bereft of material facts as to constitute a fishing expedition, and concluded that the pleadings were sufficient to sustain the claims for trade-mark infringement and passing off.

[7] In these circumstances, we need not comment on whether BTR is correct in its assertion that the *de novo* standard of review was applicable to the Prothonotary's exercise of discretion not to strike the impugned paragraphs.

[8] Second, BTR argued that the trade-mark infringement and passing off claims constituted an abuse of process under rule 221(1)(*f*) since MK had admitted that it had "no other evidence" that the products sold by BTR were not authentic MK products.

[9] We disagree. The Judge found that the facts that MK pleaded in support of its claims (which must be taken as true at this stage of the action), "as well as the evidence submitted on cross-examination during the motion for further and better particulars on discovery" (para. 12), were sufficient to permit the impugned claims to proceed. The pleaded facts are: MK only sells its products through authorized retailers; BTR is selling goods using MK trade-marks; BTR is not an authorized retailer of MK products and does not have permission to use its trade-marks. If, the Judge said, BTR has a legitimate defence that the products it is selling are authentic and were acquired directly or indirectly from an authorized distributor of MK products, it could prove it later in the action. To do this, BTR could disclose relevant documents on a motion for summary judgment or at trial, having sought an appropriate confidentiality order.

[10] Bearing in mind the heavy burden borne by a party seeking to strike a claim prior to discovery, we are not persuaded that the Judge made a palpable and overriding error in concluding that there was sufficient material before him to permit the claims to proceed. In the circumstances of

this case, it was open to him to find that the claims did not constitute an abuse of process under 221(1)(*f*) because they lacked an evidential basis.

[11] In his written submissions, counsel for BTR also argued that the Judge erred in law when he held that BTR had the burden of proving that they were selling authentic MK goods. We disagree. On a motion to strike, the focus is on the sufficiency of the material facts pleaded by the plaintiff, not on defences that might be available to the defendant. In any event, as a practical matter BTR may well be unable to defeat MK's claims by simply asserting that it acquired the goods from an authorized distributor, without producing any supporting evidence, such as the names of its suppliers.

[12] In short, despite the very able submissions of counsel, we are not persuaded that the Judge's reasons reveal any error warranting the intervention of this Court. Accordingly, the appeal will be dismissed with costs.

"John M. Evans"

J.A.

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET:	A-526-12
APPEAL FROM A JUDGMENT OF THE HONOURABLE MR. JUSTICE MANSON OF THE FEDERAL COURT DATED NOVEMBER 23, 2012, DOCKET NO. T-943-11	
STYLE OF CAUSE:	BEYOND THE RACK ENTERPRISES INC. v. MICHAEL KORS AND MICHAEL KORS (CANADA) CO.
PLACE OF HEARING:	Toronto, Ontario
DATE OF HEARING:	April 17, 2013
REASONS FOR JUDGMENT OF THE COURT BY:	EVANS, STRATAS & NEAR JJ.A.
DELIVERED FROM THE BENCH BY:	EVANS.A.

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