

Federal Court



Cour fédérale

Date: 20150302

Docket: T-467-11

Toronto, Ontario, March 2, 2015

PRESENT: The Honourable Mr. Justice Diner

BETWEEN:

VENNGO INC.

Plaintiff

and

**CONCIERGE CONNECTION INC. C.O.B. AS
PERKOPOLIS, MORGAN C. MARLOWE
AND RICHARD THOMAS JOYNT**

Defendants

JUDGMENT

I. Overview

[1] This is an appeal by Concierge Connection Inc.(Perkopolis), the Defendants, of a November 5, 2014 Order of Prothonotary Milczynski, Case Management Judge, wherein she ordered that the Defendant shall produce an itemized breakdown, by date and sale amount, of its revenue commencing April 1, 2008. The Defendant argues that the Prothonotary erred in making this Order, given the facts, which are briefly outlined below.

II. Facts

[2] The Plaintiff, Venngo, claims that the Defendants' adoption and use of PERKOPOLIS as a trademark, trade-name and domain name in the commercial program provider business, has breached the Plaintiff's rights contrary to sections 7(a), (b) and (c) of the *Trade-marks Act* (RSC, 1985, c T-13).

[3] The Plaintiff, which operates in the loyalty space, holds a family of six marks—WORKPERKS, MEMBERPERKS, CUSTOMERPERKS, CLIENTPERKS, PARTNERPERKS, ADPERKS. They all share the phrase “perks”, and pre-dated the registration of the PERKOPOLIS mark. The Plaintiff argues that these marks have been infringed, resulting in a depreciation to the value of their goodwill.

[4] Through its six marks, Venngo arranges, provides, and administers discount programs on goods and services offered to businesses, affinity groups and other organizations, for use by their employees or members. The discounts are offered in a broad array of categories, relating to goods and services within the domains of automotive, gift certificates, health and wellness, home, magazines and newspapers, and shopping.

[5] PERKOPOLIS engages in a similar business. Its 2011 registration described it as providing entertainment ticket sales, hotel booking services and related products and services through its website.

[6] Venngo alleges that the products and services PERKOPOLIS provides extends to categories well beyond entertainment ticket sales and hotel booking services into those within the scope of the Plaintiff's registration - namely, as noted above, automotive, gift certificates, health and wellness, home, magazines and newspapers, and shopping.

[7] The Plaintiff argues that the PERKOPOLIS business model is almost identical to its own, from its service and product offerings, to the appearance of the website. This confuses users and prospective clients.

[8] Venngo alleges the reason for these similarities stems from the bad faith of the Defendants in exploiting company information. Specifically, the Plaintiff approached the Defendant through one of its two directors, in both 2006 and 2007, to explore an arrangement whereby the Defendant would supply discounted tickets to the Plaintiff's clients. According to the Plaintiff, during those communications, a complete description of its proprietary operating system was disclosed.

[9] The Defendants chose not to participate in the proposed partnership. The Plaintiff continued to communicate with the Defendants through its director in 2008.

[10] In 2009, the Defendants began to operate under the business name PERKOPOLIS, and the following year, expanded their operations which, according to the Plaintiff, mimics Venngo's business and confuses its clients.

[11] This litigation began in March 2011. The Plaintiff, in its Amended Statement of Claim of October 29, 2012, sets out, in detail, why it feels that the Defendants have violated various parts of the *Trade-marks Act*, including sections 7(a) through false and misleading statements tending to discredit Venngo; 7(b) through confusion of the marks; 7(c) by passing off services; and 22, by depreciating the value of the Plaintiff's goodwill.

[12] Most importantly, the Plaintiff alleges that PERKOPOLIS' mark is void *ab initio* due to fraudulent business dealings, and has thus always been invalid pursuant to sections 18 and 57 of the Act, along with a non-statutory remedy available in such circumstances.

[13] Examination for discovery took place in November 2011, wherein the Defendants refused to provide financial information for services within the scope of their PERKOPOLIS registration. However, the Defendants undertook to provide some information with respect to sales items outside the scope of the registration, which was provided in July 2012.

[14] In January 2014, the parties agreed to a scheduling order that required any party seeking answers to refusals from the November 2011 discovery to deliver a motion record by February 7, 2014. On February 13, 2014, the Plaintiff advised the Court that it would not seek answers to any of the refusals from the November 2011 discovery, including financial information.

[15] However, on August 20, 2014, the Plaintiff elected an accounting of the Defendants' profits, in place of damages. This late election took place within the knowledge, and discretion, of the Prothonotary, who was actively case managing the file.

[16] The Defendants responded on September 29, 2014, providing three pages containing high-level charts. These charts revealed limited information: they tabulated revenues through a breakdown of five business lines for the periods of 2008-2012 and 2013, and seven business lines for 2014.

[17] The Plaintiff replied by way of letter dated October 17, 2014, that the disclosure of information relevant to the counting of profits was deficient in various ways, and in particular, lacking in information and documents relevant to the accounting of profits. The Plaintiff suggested various types of documents that would be of assistance, and that they suggested could easily be obtained.

[18] Nothing further came from the Defendants, which resulted in the current motion, held before the Prothonotary on October 28, 2014.

III. The Decision

[19] The Prothonotary based her decision to require the revenue figures and documents, by way of a sworn supplementary affidavit of documents, as well as the re-examination of Ms. Marlowe, on the following reasoning:

The plaintiff seeks an order expunging the Defendant's trade-mark registration for PERKOPOLIS (TMA792711). In addition to statutory grounds to support expungement, the plaintiff has pleaded that the defendants have acted in bad faith, with deception and have engaged in misconduct in respect of their development and registration of the PERKOPOLIS Mark ...to a degree that they submit puts in issue the Defendants' liability for infringement for the goods/services covered inside the PERKOPOLIS registration,

as well as those goods and services outside the scope of the Defendants' registration.

...Sufficient facts relating to the Defendant's conduct has been pleaded in form part of the framework that governs the parties' obligations for production in this proceeding.

Order of Prothonotary Milczynski, Docket T-467-11, Nov. 5, 2014

The Prothonotary went on to find that the financial information provided by the Defendants to that date was deficient, and that there no supporting documentation, dates of sales, commissions, referral fees, or advertising revenue, which should have been provided. Rather, the Defendants only produced total dollar amounts in the charts. The Prothonotary found that the Plaintiff could not use this information to determine the revenue generated for services covered by the PERKOPOLIS registration. She found that "whatever the merits are for the claim for those profits, the matter is clearly in issue in the event the registration is expunged."

[20] The Prothonotary further concluded:

At the hearing of the motion, various sources for further information were discussed that might support and/or clarify the Defendants' stated revenue (tax filings, sales or bank statements, HST remittances). Counsel for the Defendant also noted that the Defendants' accounting system was capable of producing an itemized breakdown – setting out dates, amounts derived from purchases, commissions/referrals or advertising for the time period in question for the goods/services inside and outside registration. I am satisfied that this information is relevant and available, and should be ordered to be produced. While the request for this production might have been made earlier, there is insufficient evidence of prejudice arising to the defendants in complying or concern that production would be an onerous exercise."

IV. Issue

[21] The issue raised in this appeal, pursuant to the test set out in *Merck & Co v Apotex*, 2003 FCA 488 at para 19 [*Merck*], is whether the Prothonotary's order was based on a wrong principle or on a misapprehension of the facts. The Defendants acknowledge that the questions raised in the motion were not vital to the final issue of the case (which is the alternate arm of the *Merck* test for a judge sitting on appeal of a Prothonotary's discretionary order).

[22] I have come to the conclusion that the Prothonotary did not base her conclusion on a wrong principle of law, or misapprehend the facts. Therefore, there is no need to consider this matter *de novo* and this appeal will be dismissed, for the reasons set out below. A brief summary of the parties positions is provided before setting out those reasons.

V. Positions of the Parties

[23] The Defendants contend that their trade mark registration is an absolute defence to an infringement or passing off action, and only if such registration is expunged, can the Plaintiff complain of confusion with its marks. Venngo can only seek monetary relief in respect of goods/services within the scope of the PERKOPOIS registration if there was an allegation of misrepresentation in the application for registration of the mark (*Remo Imports Ltd v Jaguar Cars Limited*, 2007 FCA 258 [Remo] at paras 111-114). The Defendants also rely on the *Coors Brewing Company v Anheuser-Busch, LLC*, 2014 FC 716 [Coors], for the proposition that for a trade mark registration to be held invalid on non-statutory grounds, there must have been a misstatement in the trade mark application that was either intentional and fraudulent, or innocent

but fundamental to the registration (*Coors* at paras 34-38). The Prothonotary erred in this case when she held that the Plaintiff's allegations fell within these non-statutory grounds for expungement: the alleged bad faith in the Plaintiff's Amended Statement of Claim [SoC] referenced by the Prothonotary is unconnected with the application or registration of PERKOPOLIS. The SoC does not allege that the Defendants made any misstatement or committed any fraud in their application to the Trademarks Office. As a result, the Prothonotary erred in law in finding the allegations sufficient to order production of revenues.

[24] The Plaintiff, in response, relies on Rules 222 to 233 of the *Federal Court Rules*, and that there is a reasonable likelihood that the documents sought for production would lead to relevant information for trial. The requested documents and information are consistent with the SoC. The Plaintiff also refutes the Defendants' positions above, which relied on various cases, including *Remo* and *Molson Canada v Oland Breweries Ltd*, 159 OAC 396, 2002 CarswellOnt 1147 [Molson]. They posit that *Molson* did not involve a challenge to the validity of its registration, unlike this case. And in distinguishing *Remo*, there was no finding of bad faith in those circumstances. Thus, Venngo argues that the allegations in this case are different from the cases relied on by the Defendants. The Plaintiff submits that where there is evidence of bad faith or fraud, as they have alleged, the non-statutory remedy is *ab initio* invalidation of the registration.

[25] Second, the Defendants contend that the Prothonotary wrongly placed the burden on them to provide evidence of prejudice, because they failed to bring a refusals motion by the Feb. 7, 2014 deadline in the case schedule, nor sought any extension of time for same. The

Prothonotary should have placed the onus on the Plaintiff to show that the Order requested would not cause prejudice to the Defendants. This delay also forms the basis of the third and final allegation of the Defendants, where they state that the Prothonotary misapprehended the facts when she stated that “the request ... might have been made earlier”. After failing to meet the Feb. 7 deadline, the Plaintiff on Feb. 13 stated it would not pursue any refusals. The Plaintiff offered no explanation for its change in position and this Court should not countenance multiple changes in litigation strategy - discovery is not a never-ending process (*Terra Nova Shoes v Nike Inc*, 2003 FC 1052 at paras 22-23 and 29). The Defendants also state the Prothonotary misapprehended a prior sworn statement of the Plaintiff’s CEO, who stated in cross-examination that he never had any objection to the use of Perkopolis on tickets and hotel bookings.

[26] In oral argument, Venngo responded by maintaining that they had validly made the election for accounting of profits as part and parcel of the case management process to progress the litigation, and that the Prothonotary did not misapprehend any of the actions or facts that had taken place in the process.

VI. Standard of Review

[27] Orders to accept or refuse questions on discovery involve an exercise of the Prothonotary’s discretion (*Apotex Inc v Wellcome Foundation Limited*, 2008 FCA 131 at para 3 [Apotex Inc v Wellcome]). Generally, discretionary Orders of Prothonotaries ought only to be reviewed *de novo* by a judge on appeal where: (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 (*R v Aqua-Gem Investments Ltd*, [1993] 2 FC 425 (CA) [Aqua-Gem] at 462-63; *ZI Pompey Industrie v ECU-Line NV*, 2003 SCC 27; *Merck* at para 19) . Since the question raised in the motion is not vital to the final issue in the case, the question for the Court in this motion is whether the Prothonotary's decision was based upon a wrong principle or law or misapprehension of the facts. If it is not, the decision ought to remain undisturbed (*Bauer Nike Hockey Inc v Regan*, 2005 FC 20 at paras 5-6).

VII. Analysis

[28] Discretionary decisions of Prothonotaries, such as the one under review, are to be given deference and are not to be interfered with by the Court unless they are clearly wrong in that they are based upon a wrong principle or a misapprehension of the facts. In making her decision whether to compel discovery questions and/or production requests, the Prothonotary must consider various factors. Among these factors are the degree of relevance of the requested information to prove material facts, their generality and breadth, the burden that would be imposed by requiring the information, and the availability of other potential evidence of the facts in question (*Apotex v Wellcome* at para 3).

[29] In this case, the Plaintiff has been entirely consistent from the outset in its allegations of bad faith and deceit, and the consequent result that the PERKOPOLIS registration was void *ab initio* and should be expunged.

[30] I agree with the Plaintiff's view that *Remo* provides a basis for its contention that non-statutory grounds of deception have been recognized, as has a basis for finding a trade mark

being void *ab initio*, resulting in damages through the period of infringement (*Remo*, paras 53;59). While *Remo* arrived at a different conclusion on the facts, since there was no bad faith in the luggage maker Jaguar using the auto manufacturer's mark, the Federal Court of Appeal wrote:

[92] The appellant validly registered its trade-mark in 1981 for tote bags and luggage and amended it in 1984 for handbags and school bags. As previously mentioned, both parties to the proceedings were unaware at the time, and until 1991, of the existence of each other. The judge did not impugn the credibility of either party. How then can it be said that the appellant engaged in a willful or negligent misrepresentation creating confusion in the public when it did not know of the existence of the respondents' trade-marks, applied publicly and without opposition for a registration of, and subsequent amendments to, its own mark, and operated in channels of trade different from those of the respondents?

[31] The allegations in this case are quite different from the conclusion in *Remo*, because the Plaintiff is impugning the credibility of the Defendants, stating that they engaged in wilful and negligent misrepresentation in the registration process. This arose out of business knowledge for which they were made privy during negotiations with the Plaintiff, which they subsequently used to create a similar mark, and business model. This, they allege, has created confusion in the public. Of course, it is open to the trial judge to find no issue with the alleged conduct and/or registration. However, these issues are central to the trial. Because the Plaintiff elected an accounting of profits, the requested information and documentation is relevant, under Rule 222.

[32] Non-statutory grounds for the invalidity of trademarks was recently summarized in *Coors* by Justice Gleason. After a review of the relevant cases, she wrote as follows:

[38] From the foregoing, the law on invalidity of trade-mark registrations can be summarised as follows:

1. There are four statutory grounds for invalidity: (a) non-registrability, (b) non-distinctiveness; (c) abandonment, and (d) non-entitlement (*Trade-marks Act*, s. 18).
2. In addition, misstatements in the trade-mark application may serve to invalidate a registered trade-mark in two circumstances: (a) where the misstatement was intentional and fraudulent, and (b) where the misstatement was innocent but fundamental to the registration, in the sense that the registration could not have been secured without the misstatement (Harold G. Fox, *Canadian Law of Trade-Marks and Unfair Competition*, 3rd ed (Scarborough: Carswell, 1972) [Fox]; *General Motors of Canada v Décarie Motors Inc*, [2001] 1 FC 665 (FCA) at paras 17-18 [*General Motors*]; *Unitel Communications Inc v Bell Canada* (1995), 61 CPR (3d) 12 (FCTD) [*Unitel*]; *WCC*).
3. Where, but for the misstatement in the application, the trade-mark would not have been registrable under section 12, that misstatement is fundamental and thus grounds to invalidate the registration (Fox; *General Motors*; *WCC*).
4. Where the trade-mark application was based on proposed use under subsection 30(e) of the Act, and the statement of intent to use (required under subsection 30(e)) and the declaration of use (required under subsection 40(2)) are shown to have been false, the Court has found that to be a fundamental misstatement warranting invalidation of the registration (*Unitel* and *Marchands Ro-Na Inc v Tefal SA* (1981), 55 CPR (2d) 27; *Unitel*). There may be other situations where an innocent misstatement not linked to section 12 of the Act is nonetheless fundamental to the registration and thus grounds to invalidate the registration, but the parties have not presented another example of such in the case law.

[33] It should be noted that the underlying facts of this case were already considered by this Court in a motion to strike judgment (*Venngo Inc v Concierge Connection Inc.*, 2013 FC 300 [Venngo I]). In that instance, Justice de Montigny found that the Defendants “have not satisfied this Court that the Plaintiff’s claims are completely without merit, because they have not demonstrated that PERKOPOLIS is so clearly distinct from any of the Venngo Marks that the action should be dismissed at it relates to confusion and the depreciation of goodwill” (*Venngo I*

at para 7). In dismissing the motion to strike, Justice de Montigny found “that the court [at trial] must also consider the validity of the Venngo Marks to determine whether they were registrable and distinctive in view of the many similar marks for similar services. This is a complex issue, for which summary judgment is clearly not appropriate” (*Venngo I* at para 34).

[34] My conclusion, based on the proceedings to date, is that the Prothonotary’s decision was reasonable. The Defendants have not demonstrated that she exercised her discretion upon any incorrect legal principles in reaching her decision – either with respect to the procedural aspects of her Order for the information and documentation, or with respect to the reasons for which she concluded that it was relevant.

[35] This includes the fact that the request for production should have arguably been made earlier in the process. The Plaintiff provided an explanation for the delay and that was accepted by the Prothonotary. I find no reason to interfere with this aspect of the decision. Similarly, she implicitly found that there would not be an undue burden on the Defendants to produce the documentation after considering the evidence on the record. In coming to this conclusion, I do not find that she misapprehended any facts and/or ignored evidence.

[36] Finally, I find there is no basis to conclude she misapprehended the prior sworn statements of the Plaintiff’s CEO regarding acquiescence to the use of PERKOPOLIS for tickets and hotel bookings. That is simply one of the many facts that the trial judge will have to consider in making a final ruling on this matter. The statement does not obviate from the need for the Defendants to produce the documentation required for an accounting of profits.

VIII. Conclusion

[37] The Court's intervention is not warranted in this case, as the Applicant has not demonstrated that the Prothonotary exercised her discretion incorrectly, based upon a wrong principle of law or upon a misapprehension of the facts before her. The appeal is dismissed. Costs are awarded to the Plaintiff.

THIS COURT'S JUDGMENT is that the appeal is dismissed. Costs are awarded to the Plaintiff, Venngo Inc.

"Alan S. Diner"

Judge