

Federal Court of Appeal



Cour d'appel fédérale

Date: 20140612

**Docket Nos.: A-255-13
A-409-13**

Citation: 2014 FCA 158

**CORAM: GAUTHIER J.A.
MAINVILLE J.A.
BOIVIN J.A.**

BETWEEN:

BAUER HOCKEY CORP.

Appellant

and

**SPORT MASKA INC. dba REEBOK-CCM
HOCKEY**

Respondent

Heard at Montréal, Quebec, on June 10, 2014.

Judgment delivered at Montréal, Quebec, on June 12, 2014.

REASONS FOR JUDGMENT BY:

MAINVILLE J.A.

CONCURRED IN BY:

**GAUTHIER J.A.
BOIVIN J.A.**

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REASONS FOR JUDGMENT

MAINVILLE J.A.

[1] These reasons concern two consolidated appeals challenging two orders of Annis J. (Judge) of the Federal Court dated respectively July 12, 2013 (First Order) and November 21, 2013 (Second Order). A copy of these reasons shall be filed in each appeal docket A-255-13 and A-409-13.

[2] In the First Order, the Judge struck from Bauer Hockey Corp.'s (Bauer) Statement of Claim in Federal Court docket T-311-12 any reference to aggravated and punitive damages sought in the context of a trade-mark infringement action. In the Second Order, the Judge dismissed Bauer's motion for leave to amend its Statement of Claim so as to reintroduce aggravated and punitive damages within that action.

[3] The thrust of Bauer's submissions in both appeals is that the Judge misconstrued the law when he concluded that punitive damages may only be awarded in connection with litigation misconduct. I agree that this was an error in law. However, that error did not affect the Judge's findings with respect to aggravated damages, nor was it a determining factor with respect to the First Order. As a result, and for the reasons more fully set out below, I would dismiss the appeal in docket A-255-13 with respect to the First Order, but allow in part only the appeal in docket A-409-13 with respect to the Second Order.

I. The proceedings leading to the First Order

[4] On December 21, 2012, Bauer filed an action against the respondent Sport Maska Inc. dba Reebok-CCM Hockey (Reebok-CCM) for alleged infringement of a SKATE'S EYESTAY design trade-mark registered under Canadian Trade-mark registration No. TMA361,722. Reebok-CCM responded by seeking particulars with respect to the allegations, including particulars of the facts and grounds relied upon by Bauer to seek "[a]ggravated and punitive damages" at sub-paragraph 1(k) of its Statement of Claim.

[5] Bauer responded that the basis for the claim of aggravated and punitive damages was set out in paragraph 18 of its Statement of Claim in that it alleges that the infringing actions were willful and done with full knowledge of Bauer's trade-mark rights. In light of that response, Reebok-CCM brought a motion to, *inter alia*, strike sub-paragraph 1(k) of the Statement of Claim seeking aggravated and punitive damages on the ground that no material facts were alleged to support such a claim.

[6] The Judge agreed with Reebok-CCM. The Judge relied on the decisions of the Federal Court in *Wi-Lan Technologies Corp. v. D-Link Systems Inc.*, 2006 FC 1484, 57 C.P.R. (4th) 1 (*Wi-Lan*) and *Dimplex North America Ltd. v. CFM Corp.*, 2006 FC 586, 54 C.P.R. (4th) 435 (*Dimplex*) to conclude that knowingly and intentionally infringing a trade-mark cannot alone lead to aggravated or punitive damages. It is this finding that Bauer is appealing before us in docket A-255-13.

II. The proceedings leading to the Second Order

[7] Notwithstanding its appeal to this Court challenging the First Order, Bauer also sought to amend its Statement of Claim so as to reintroduce aggravated and punitive damages in its action with additional allegations with respect to the factual basis supporting such a claim.

[8] Bauer notably sought to allege that Bauer and Reebok-CCM have been in competition for many years, that they have in-depth knowledge of their respective products, that Reebok-CCM knows that Bauer is using the SKATE'S EYESTAY design trade-mark and is fully aware of its significant commercial importance, that it intentionally and willfully copied that trade-mark to

place it on its own products so as to improve its market position and to purposively depreciate Bauer's trade-mark. Bauer also sought to allege that Reebok-CCM's actions were "especially troubling" considering that its predecessor-in-title had previously acknowledged Bauer's exclusive right in the design protected by the trade-mark.

[9] In his Second Order, the Judge accepted most of the amendments proposed by Bauer to justify its claim of aggravated and punitive damages. But even with this new set of factual allegations, the Judge nevertheless refused to add to the Statement of Claim the remedy of aggravated and punitive damages. In the Judge's view, the amendments effected no substantial change to the original pleadings.

[10] The Judge relied on *Dimplex* to conclude that "the only instances of punitive or exemplary damages being awarded in patent cases were in connection with litigation misconduct": Second Order at para. 23. The Judge added that the more recent decisions of Martineau J. of the Federal Court in *Eurocopter v. Bell Helicopter Textron Canada Ltée*, 2012 FC 113, 100 C.P.R. (4th) 87 (*Eurocopter FC*) and of this Court in *Bell Helicopter Textron Canada Limitée v. Eurocopter, société par actions simplifiée*, 2013 FCA 219, 449 N.R. 111 (*Eurocopter FCA*) had allowed a claim of punitive damages in a patent infringement case on the ground of "the extra added element related to the defendant's behaviour at trial": Second Order at para. 24.

[11] The Judge consequently concluded that even in light of the new facts set out by Bauer in its Amended Statement of Claim, a claim for aggravated and punitive damages could not be sustained in this case. Bauer now also appeals this Second Order to this Court.

III. Standard of review and general principles

[12] The decision of a judge to grant or to refuse a motion to strike or to amend a pleading is discretionary. This Court will defer to such a decision on appeal in the absence of an error of law, a misapprehension of the facts, a failure to give appropriate weight to all relevant factors, or an obvious injustice: *Ereiser v. Canada*, 2013 FCA 20, 444 N.R. 64 at para. 16; *Apotex Inc. v. Canada (Governor in Council)*, 2007 FCA 374, 63 C.P.R. (4th) 151 at para. 15; *Mayne Pharma (Canada) Inc. v. Aventis Pharma Inc.*, 2005 FCA 50, 38 C.P.R. (4th) 1 at para. 9.

[13] The test for dismissing a claim on a motion to strike is the one laid out by the Supreme Court of Canada in *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959 (*Hunt v. Carey*) requiring that it be plain and obvious that the pleadings disclose no reasonable cause of action. This test has been recently reiterated in *R. v. Imperial Tobacco Canada Ltd.*, 2011 SCC 42, [2011] 3 S.C.R. 45 at paras. 17 to 26 (*Imperial Tobacco*), where Chief Justice McLachlin added that another way of putting the test is that the claim must have no reasonable prospect of success. Where a reasonable prospect of success exists, the matter should be allowed to proceed to trial. Valuable as it is, the motion to strike is a tool that must nevertheless be used with care.

[14] A motion to strike for failure to disclose a reasonable cause of action proceeds on the basis that the facts pleaded are true, unless they are manifestly incapable of being proven, and it

is incumbent on the claimant to clearly plead the facts upon which it relies in making its claim: *Imperial Tobacco* at para. 22.

[15] The *Federal Courts Rules*, SOR/98-106 govern amendments to pleadings through Rules 75 to 79 as well as in Rules 200 and 201. These rules provide for a liberal approach to amendments: *Sanofi-Aventis Canada Inc. v. Teva Canada Limited*, 2014 FCA 65 at para. 13. The applicable principles relating to amendments are set out in *Canderel Ltd. v. Canada*, [1994] 1 F.C. 3 (C.A.) at p. 10: “while it is impossible to enumerate all the factors that a judge must take into consideration in determining whether it is just, in a given case, to authorize an amendment, the general rule is that an amendment should be allowed at any stage of an action for the purpose of determining the real questions in controversy between the parties, provided, notably, that the allowance would not result in an injustice to the other party not capable of being compensated by an award of costs and that it would serve the interests of justice”.

[16] When determining whether an amendment should be allowed, it is helpful for the judge deciding the matter to ask whether the amendment would be a plea capable of being struck. If it is, then the amendment should not be permitted: *Visx Inc. v. Nidek Co.* (FCA) (1996), 209 N.R. 342, 72 C.P.R. (3d) 19 at p. 24 of the C.P.R. ed.

[17] It is with these considerations in mind that I proceed to analyse the parties’ submissions in this appeal.

IV. Analysis

[18] Since Bauer is seeking to include both aggravated and punitive damages to its action, it is useful to first discuss the distinction between the two.

[19] Punitive damages, as the name indicates, are designed to punish. As a result they constitute an exception to the general rule, in both common law and civil law, that damages are designed to compensate the injured, not to punish the wrongdoer. Punitive damages may be awarded in situations where the defendant's misconduct is so malicious, oppressive and high-handed that it offends the court's sense of decency. Punitive damages bear no relation to what the plaintiff should receive by way of compensation. Their aim is not to compensate the plaintiff, but rather to punish the defendant. It is the means by which the court expresses its outrage at the egregious conduct of the defendant where the defendant's conduct is truly outrageous. Punitive damages are in the nature of a fine, which is meant to act as a deterrent to the defendant and to others from acting in the impugned manner: *Hill v. Church of Scientology of Toronto*, [1995] 2 S.C.R. 1130 at paras. 196 to 199 (*Hill*); *Whiten v. Pilot Insurance Co.*, 2002 SCC 18, [2002] 1 S.C.R. 595 (*Whiten*) at para. 36.

[20] The level of blameworthiness of the defendant's conduct leading to punitive damages may be influenced by many factors, which include (a) whether the misconduct was planned or deliberate; (b) the intent and motive of the defendant; (c) whether the defendant persisted in the outrageous conduct over a lengthy period of time; (d) whether the defendant concealed or attempted to cover up its misconduct; (e) the defendant's awareness that what it was doing was

wrong; (f) whether the defendant profited from its misconduct; and (g) whether the interest violated by the misconduct was known to be deeply personal to the plaintiff: *Whiten* at para. 113.

[21] Punitive damages are not limited to certain categories of claims: *Vorvis v. Insurance Corporation of British Columbia*, [1989] 1 S.C.R. 1085 at pp. 1104-1105 (*Vorvis*); *Whiten* at para. 67. As a result, punitive damages have been found to be available in all types of cases, notably in patent infringement cases: *Eurocopter FCA* at paras. 180 to 184; *Lubrizol Corp. v. Imperial Oil Ltd.*, [1996] 3 F.C. 40, 67 C.P.R. (3d) 1 at p. 20 of the C.P.R. ed. (*Lubrizol*); *Whiten* at para. 44.

[22] Contrary to the *Patented Medicines (Notice of Compliance) Regulations*, SOR/93-133 discussed by this Court in its recent decision of *Teva Canada Limited v. Pfizer Canada Inc. et al*, 2014 FCA 138, the *Trade-marks Act*, R.S.C. 1985, c. T-13 does not explicitly or implicitly preclude an award of punitive damages in cases involving a trade-mark infringement. There is therefore no principle impeding an award of punitive damages in a trade-mark infringement case where the circumstances warrant such an award.

[23] Aggravated damages will frequently cover conduct that could also be the subject of punitive damages, but the role of aggravated damages remains compensatory, and they usually are awarded to take account of intangible injuries so as to augment damages assessed under the general rules relating to the assessment of damages. Aggravated damages are thus compensatory in nature and may only be awarded for that purpose: *Vorvis* at pp. 1097 to 1099; *Hill* at paras. 188 to 191. They may be awarded in cases where the defendant's conduct has been particularly

high-handed or oppressive, thereby increasing the plaintiff's humiliation and anxiety: *Lubrizol* pp. 17-18 of the C.P.R. ed. It is useful to make a distinction between aggravated and punitive damages where the plaintiff is a corporation, since it is questionable whether aggravated damages based on humiliation and distress may be claimed by a corporation: *Walker et al. v. CFTO Ltd. et al.* (1987), 37 D.L.R. (4th) 224, 59 O.R. (2d) 104 (Ont. C.A.).

[24] In this case, Bauer's Statement of Claim, as originally filed and as amended, has never alleged humiliation or mental distress. Moreover, even if it did allege humiliation or mental distress, it is questionable whether Bauer would be capable of proving such allegations as a corporate entity. As a result, the Judge committed no error in striking from Bauer's action the claim for aggravated damages and in refusing to reintroduce that claim through Bauer's proposed amendments.

[25] With respect to punitive damages, Bauer's original Statement of Claim contained little factual elements supporting such a claim. As noted in Bauer's response to Reebok-CCM's demand for particulars, the claim for punitive damages was based on willful and knowing infringement of its trade-mark. Allegations of willful and knowing infringement are alone insufficient to support a claim to punitive damages. Intellectual property infringement cases, even in voluntary infringement circumstances, will not necessarily attract punitive damages.

[26] Punitive damages "are very much the exception rather than the rule" and "should be resorted to only in exceptional cases and with restraint": *Whiten* at paras. 94 and 69. Such damages should only be awarded where the evidence shows that there has been high-handed,

malicious, arbitrary or highly reprehensible conduct that departs to a marked degree from the ordinary standards of decent behaviour. This is a high threshold that considerably limits the circumstances in which punitive damages may be awarded: *Eurocopter FCA* at para. 184.

[27] As a result, the Judge's First Order striking punitive damages from the claim should not be disturbed.

[28] The Second Order is however another matter. In that order, the Judge concluded that punitive damages could only be awarded in connection with litigation misconduct, and that consequently Bauer's amendments claiming punitive damages could not be allowed since no litigation misconduct was alleged. As noted above, this is not the state of the law of punitive damages in Canada.

[29] The Judge's reliance on *Dimplex* and *Wi-Lan* was misplaced since these cases simply stand for the uncontroversial proposition that punitive damages are not awarded simply because a defendant knowingly infringed a patent. Those decisions should not be understood as defining punitive damages with sole reference to litigation misconduct, since this is clearly not how the Supreme Court of Canada has defined such damages.

[30] Moreover, the Judge's view that the award of punitive damages in *Eurocopter FC*, and confirmed in *Eurocopter FCA*, was based on the defendant's behaviour at trial was also misplaced. In that case, the award of punitive damages was based on the defendant's willful infringement of a patent which it knew to be valid, combined with deliberate and outrageous bad

faith conduct: *Eurocopter FC* at paras. 425 to 442 and 456; *Eurocopter FCA* at para. 192. There was no discussion in both these decisions with respect to litigation misconduct as a ground for awarding punitive damages.

[31] Having found an error of law which formed the basis of the Judge's decision to deny the amendment claiming punitive damages, the issue before us is therefore whether it is plain and obvious that Bauer's claim for punitive damages would not succeed at trial in light of the additional allegations of fact set out in the Amended Statement of Claim accepted by the Judge.

[32] In this case, most of Bauer's new allegations concern the intentional and willful infringement of its design trade-mark by Reebok-CCM. As I have already noted, intentional and willful infringement of an intellectual property right, such as a trade-mark, cannot alone form the basis of an award of punitive damages. However, Bauer's adds additional elements.

[33] Bauer first adds at paragraph 18e of its Amended Statement of Claim that Reebok-CCM "has previously acknowledged that Bauer Hockey's predecessor-in-title had exclusive rights in a rectangular-shaped form located on the exterior side of the [skate] boot in a generally centralized position". At paragraph 19 (as amended), Bauer also alleges that Reebok-CCM had entered into a "Transaction executed between the parties in which [it] acknowledged the exclusive rights of the Plaintiff Bauer Hockey in a rectangular-shaped window form located on the exterior side of the boot in a generally centralized location of the boot" .

[34] Bauer further alleges at paragraph 18d) of its Amended Statement of Claim that Reebok-CCM's actions were calculated to depreciate the distinctive character of its well known design mark. This new allegation is in addition to the original allegation set out at paragraph 21, where Bauer also states that after receiving a letter of demand, Reebok-CCM not only failed to cease its infringing activities, but rather adopted the design on its entire line of CCM U+Series Hockey Skates.

[35] In light of these additional elements, combined with the other allegations, it cannot be concluded that Bauer's claim of punitive damages has no reasonable prospect of success, i.e. that it is plain and obvious that the Amended Statement of Claim discloses no reasonable cause of action with respect to punitive damages. Echoing the comments of Wilson J. in *Hunt v. Carey* at pp. 988-989, I am of the view that it would be inappropriate in these circumstances to deny a plaintiff who is raising factual allegations that could potentially (but not necessarily) be found to justify an award of punitive damages the opportunity to persuade a judge at the trial. As further noted in *Hunt v. Carey* at p. 989, "[i]t is not for this Court on a motion to strike out portions of a statement of claim to reach a decision one way or the other as to the plaintiff's chances of success. As the law that spawned the 'plain and obvious' test makes clear, it is enough that the plaintiff has some chance of success". Though these principles were set out by the Supreme Court of Canada within the context of a motion to strike, they also apply to the amendment sought by Bauer in these proceedings.

[36] For these reasons, I would therefore dismiss the appeal from the First Order in docket A-255-13, and allow in part the appeal from the Second Order in docket A-409-13 by permitting

Bauer to further amend its Statement of Claim by adding thereto paragraph 1(k) with respect to punitive damages, but without any reference to aggravated damages. In light of the divided result, there should be no order as to costs in both appeals.

“Robert M. Mainville”

J.A.

“I agree.

Johanne Gauthier J.A.”

“I agree.

Richard Boivin J.A.”

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET NOS:

A-255-13 and A--409-13

(APPEAL FROM TWO ORDERS OF ANNIS J. OF THE FEDERAL COURT, DATED JULY 12, 2013 AND NOVEMBER 21, 2013 IN FILE T-311-12.

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SPORT MASKA INC. DBA
REEBOK-CCM HOCKEY

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MAINVILLE J.A.

CONCURRED IN BY:

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DATED:

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