

**NOVA SCOTIA COURT OF APPEAL**

**Citation:** 2703203 *Manitoba Inc. v. Parks*, 2007 NSCA 36

**Date:** 20070403

**Docket:** CA 263242

**Registry:** Halifax

**Between:**

Ross Parks, Parrcom Atlantic Concepts Incorporated and Lloyd Smith

Appellants

v.

2703203 Manitoba Inc.

Respondent

**Judges:** Cromwell, Saunders & Oland, J.J.A.

**Appeal Heard:** November 21, 2006, in Halifax, Nova Scotia

**Held:** Appeal allowed in part and damages at trial varied, as per reasons for judgment of Saunders, J.A. (dissenting only on the extent to which general damages ought to be reduced, as reflected in [72] - [101] of his reasons); Cromwell & Oland, J.J.A. concurring

**Counsel:** John P. Merrick, Q.C. & William J. Mahody, for the appellants,  
Ross Parks and Parrcom Atlantic Concepts Incorporated  
Lloyd E. Smith, representing himself  
William L. Ryan, Q.C., & Sarah Dykema, for the respondent,  
2703203 Manitoba Inc.

**Reasons for judgment:** Saunders, J.A. (dissenting only on the extent to which general damages ought to be reduced, as reflected in [72] - [101] *infra*)

[1] After a trial before Nova Scotia Supreme Court Justice K. Peter Richard, the appellants were found jointly and severally liable for copyright infringement, passing-off, and interference with contractual relations, resulting in general and punitive damages totalling \$239,000. The trial judge also granted injunctive relief restraining the appellants from carrying on various activities upon strict terms while at the same time making it clear that nothing in his order would restrict the appellants from continuing to publish their work as long as it complied with the order and was readily distinguishable from the respondent's.

[2] For the reasons that follow I would allow the appeal in part, thus reducing the damages payable by the appellants to \$117,600.

[3] The host of grounds, issues and submissions put forward by the appellants may be unbundled and recast as two principal inquiries. Did the trial judge err:

- (i) in his findings of fact, or in his application of the law to those facts, in arriving at his conclusions that the appellants were liable to the respondent for any or all of: copyright infringement; passing-off; and interference with contractual relations; and
- (ii) in his findings of fact, or in his application of the law to those facts, in concluding that the respondent was entitled to general damages, and to punitive damages.

## **Background**

[4] I will start by giving a brief introduction to the facts of this case. Necessary detail will be added later when I address the particular issues requiring our consideration.

[5] The appellant, Parrcom Atlantic Concepts Incorporated ("Parrcom") was incorporated in Nova Scotia on January 3, 1997. Its sole director and agent is the appellant, Mr. Ross Parks.

[6] The respondent, 27032303 Manitoba Inc. (“the respondent” or “Manitoba Inc.” or “the company”) was incorporated in Manitoba on March 1, 1991 and registered in Nova Scotia on November 15, 2002. Ms. Jean Daum is the president, chief operating officer and sole director of Manitoba Inc.

[7] The respondent’s principal business is the franchising of a publication called *Coffee News*, which is trademarked in both Canada and the United States. *Coffee News* is published in 50 countries and according to the evidence presented at trial, has acquired a reputation as a highly rated, award winning, trade publication.

[8] Ms. Daum spent 10 years developing the *Coffee News* concept and organization. All publications have the exact same format, colour and style, comprising a border of advertising which surrounds a text of written content in the centre. Each franchisee is provided the content for that particular issue through a coded entry into the respondent’s website. Material is then downloaded and incorporated into the body of the *Coffee News* which is then distributed by the individual franchisee, free of charge, to restaurants, coffee shops, convenience stores, etc.

[9] The franchise contract sets out the geographical area in which a franchisee will distribute *Coffee News*. The terms of the contract require that the franchisee sell advertising and arrange for the printing and distribution of the sheet(s) in the designated geographical region.

[10] The respondent first encountered the appellant, Mr. Ross Parks (“Mr. Parks”) in September 1998 concerning a *Coffee News* franchise negotiated with John Schimmel (“Mr. Schimmel”) in North Vancouver, British Columbia.

[11] It was around this same time that David Lane, a Winnipeg franchisee, expressed an interest in selling his franchise. Mr. Lane had been diagnosed with a terminal illness. Mr. Parks learned of this and entered into negotiations with Mr. Lane.

[12] Ms. Daum testified that Mr. Parks played upon Mr. Lane’s deteriorating health so as to bring the purchase price down to unconscionable levels, before deciding to terminate their negotiations altogether. Based on this event, and the

fact that no franchise fees had been paid for the North Vancouver franchise, Ms. Daum vowed that she would never have any further dealings with Parks.

[13] In February 2000 the appellant, Lloyd Smith (“Mr. Smith”) joined the respondent’s team. As far as the respondent knew, Smith had acted independently in negotiating his purchase of a *Coffee News* franchise in the Annapolis Valley. An agreement was entered into between the respondent and Smith on February 28, 2000 to formalize their relationship.

[14] In June 2000, Ms. Daum discovered that Parks had participated in some way in Smith’s franchise arrangement. She immediately confronted Smith who assured her that Parks’ only involvement was to have advanced Smith a loan, and that Parks’ company, Parrcom, had been engaged to do some administrative work for the franchise. Ms. Daum also learned that John Schimmel had become involved, but once again Smith assured her that Schimmel’s interest was limited to some graphic design work from his Vancouver residence. With these assurances, Ms. Daum sent an email to Smith stating in part:

I must tell you - I WOULDN’T have allowed you to licence of Coffee News if I’d known either Ross or John Schimmel was in any way involved with it.

[15] Unknown to Ms. Daum, Parks then negotiated for several other *Coffee News* franchises, supposedly on behalf of Smith. The appellants Smith and Parks kept the respondent completely in the dark as to the true extent of Parks’ involvement in the business. Parks either directly or through his company Parrcom, held control and stood as the guiding force behind their *Coffee News* franchise in the Annapolis Valley. Revenues from the franchise operation were intermingled with other monies coming to Parks or Parrcom. Smith had neither signing nor administrative authority and was found by the trial judge to be nothing more than a “front man” for the operation.

[16] From 2000-2002 Smith acquired franchises under his name in other parts of Nova Scotia. The evidence disclosed that Parks was the true owner and manager of these franchises with all revenues directed through Parrcom. The trial judge found that Parks and Smith went to great lengths to deceive the respondent.

[17] In June 2002 Parrcom entered into an agreement with two other individuals to supply editorial material for a new publication, *Flying Cow*. Witnesses at trial testified that the first several issues of *Flying Cow* were published by the same printer as *Coffee News*, and were identical to the *Coffee News* in every respect including design, format, and the quality and colour of the paper. Only the editorial content and the mast-head were different. Smith was shown to be intimately involved in all of Parrcom/Parks' development of *Flying Cow*.

[18] In the summer of 2002 Mr. Cohen McInnes responded to an ad in the local edition of *Coffee News* for a sales agent position. Mr. McInnes was directed to Parks, who then arranged for Mr. McInnes to meet with his brother, David Parks. At the meeting David Parks showed up with a complete binder respecting *Coffee News*, as well as a copy of the Halifax edition of *Flying Cow*. Mr. McInnes was hired as a *Coffee News* sales agent but was told by David Parks that there would be an opportunity to "grow with *Flying Cow*."

[19] Then a fortuitous thing happened. Shortly after his initial meeting with David Parks, Mr. McInnes called the telephone number he had been given for the *Coffee News*. The answering machine message declared "home of *Coffee News* and *The Flying Cow*." Concerned about the obvious confusion with the two names, Mr. McInnes called the head office of the respondent and spoke with Ms. Daum. Only then did Ms. Daum discover the extent of Parks' involvement. She terminated Smith's franchise. The franchise was then passed on to Mr. McInnes. Following the transfer, Mr. McInnes testified that Parks was in his area soliciting advertising, and that many of Mr. McInnes' clients concluded that *Coffee News* and *Flying Cow* were one and the same.

[20] Mr. McInnes testified that while he had the *Coffee News* franchise in the Antigonish-Port Hawkesbury area, *Flying Cow* was almost identical to the *Coffee News* and used the same format and paper colour. The evidence revealed that *Coffee News* was often removed from its display stands in stores and replaced with copies of *Flying Cow*. Witnesses said that stacks of *Coffee News* disappeared from their locations or were destroyed at the hands of Parks.

[21] The statement of claim filed by the respondent in October, 2002 claimed both injunctive relief and damages for a variety of alleged misconduct including: breach of contract; breach of fiduciary obligations; "breach of copyright"; passing-

off; infringement of copyright; conspiracy; interference with the contracts and business of the respondent, trademark violations; violation of the **Competition Act**; unlawful use of confidential and strategic business information; and violation of non-competition agreements.

[22] The appellants were represented by legal counsel in preparing and filing their pleadings. However, they chose to defend themselves at trial.

[23] After a five day trial Richard, J. found Parks, Parrcom and Smith jointly and severally liable for infringement of copyright, the tort of passing-off, and interference with contractual relations, and awarded the respondent general damages of \$139,000, punitive damages of \$100,000, and costs of \$10,000.

[24] I will now address the standard of review that applies to our consideration of the various issues in this case.

### **Standard of Review**

[25] Deciding the appropriate standard of review depends on how one characterizes the particular question that is under scrutiny.

[26] In **Secunda Marine Services Ltd. v. Liberty Mutual Insurance Company**, 2006 NSCA 82 this Court said at ¶ 25:

As this Court observed in **McPhee v. Gwynne-Timothy**, (2005), 232 N.S.R. (2d) 175; 737 A.P.R. 175; 2005 NSCA 80, at ¶ 31 - 33:

[31] A trial judge's findings of fact are not to be disturbed unless it can be shown that they are the result of some palpable and overriding error. The standard of review applicable to inferences drawn from fact is no less and no different than the standard applied to the trial judge's findings of fact. Again, such inferences are immutable unless shown to be the result of palpable and overriding error. If there is no such error in establishing the facts upon which the trial judge relies in drawing the inference, then it is only when palpable and overriding error can be shown in the inference drawing process itself that an appellate court is entitled to intervene. Thus, we are to apply the same standard of review in assessing Justice Richard's findings of fact, and the inferences he drew from those facts. **H. L. v. Canada (Attorney General)**,

[2005] S.C.J. No. 24; **Housen v. Nikolaisen**, [2002] 2 S.C.R. 235; **Campbell MacIsaac v. Deveaux & Lombard**, 2004 NSCA 87.

[32] An error is said to be palpable if it is clear or obvious. An error is overriding if, in the context of the whole case, it is so serious as to be determinative when assessing the balance of probabilities with respect to that particular factual issue. Thus, invoking the "palpable and overriding error" standard recognizes that a high degree of deference is paid on appeal to findings of fact at trial. See, for example, **Housen**, supra, at ¶ 1-5 and **Delgamuukw v. British Columbia**, [1997] 3 S.C.R. 1010, at ¶ 78 and 80. Not every misapprehension of the evidence or every error of fact by the trial judge will justify appellate intervention. The error must not only be plainly seen, but 'overriding and determinative.'

[33] On questions of law the trial judge must be right. The standard of review is one of correctness. There may be questions of mixed fact and law. Matters of mixed fact and law are said to fall along a 'spectrum of particularity.' Such matters typically involve applying a legal standard to a set of facts. Mixed questions of fact and law should be reviewed according to the palpable and overriding error standard unless the alleged error can be traced to an error of law which may be isolated from the mixed question of law and fact. Where that result obtains, the extricated legal principle will attract a correctness standard. Where, on the other hand, the legal principle in issue is not readily extricable, then the issue of mixed law and fact is reviewable on the standard of palpable and overriding error. See **Housen**, supra, generally at ¶ 19-28; **Campbell MacIsaac**, supra, at ¶ 40; **Davison v. Nova Scotia Government Employees Union**, 2005 NSCA 51.

[27] To summarize then, on questions of law the judge must be right. Such questions are tested on a standard of correctness. Matters of fact, or inferences drawn from facts are owed a high degree of deference and will not be disturbed unless they resulted from palpable and overriding error. Matters said to be mixed questions of fact and law are also tested using the palpable and overriding error standard, unless the mistake can be easily linked to a particular and extricable legal principle, which will then attract a correctness standard. Where, however, the legal principle is not readily extricable, the question of mixed law and fact will be reviewable on the standard of palpable and overriding error.

[28] The findings, inferences and conclusions drawn by the trial judge in this case cover the spectrum between questions of fact, law, or mixed law and fact. Accordingly each will draw its own standard of review.

### **Credibility**

[29] Before dealing specifically with each of the causes of action for which the trial judge ultimately awarded damages, it is necessary to emphasize at the outset the many strong and sharp findings of credibility which Justice Richard made against the appellants.

[30] A judge's advantage in seeing and hearing the witnesses who testify at a trial is not to be taken lightly. Absent palpable and overriding error, findings of fact and in particular, findings of credibility are not to be disturbed. See for example **Toneguzzo-Norvell et al v. Savein and Burnaby Hospital**, [1994] 1 S.C.R. 114 at 121. It is not every error that leads to appellate intervention. As Chief Justice Lamer said in **Delgamuukw et al v. British Columbia et al**, [1997] 3 S.C.R. 1010 at ¶ 88:

The error must be sufficiently serious that it was overriding and determinative in the assessment of the balance of probabilities with respect to that factual issue.

Finally, in **R. v. W.(R.)** (1992), C.C.C. (3d) 134 (S.C.C.) the Supreme Court of Canada cautioned appellate courts with respect to the requisite deference that is owed to findings of credibility made at trial, at p. 142:

This Court has repeatedly affirmed the importance of taking into account the special position of the trier of fact on matters of credibility . . . The trial judge has the advantage, denied to the appellate court, of seeing and hearing the evidence of witnesses.

While the court's admonition was given in the context of a criminal case, it applies equally in the context of civil litigation.

[31] There is no doubt that in this case the trial judge was unimpressed with the evidence presented by the appellants. Early in his decision Richard, J. states:

[9] During the four and one-half days of trial there was much contradiction between the evidence of the Plaintiff and the evidence of the several defendants.



At the outset I express the conclusion that where there is conflict between the evidence of the Plaintiff and the Defendant I accept that of the Plaintiff.

[32] The strong language used by the trial judge in this case provide many illustrations that he rejected, unreservedly, any evidence offered by the appellants which purported to deny wrongdoing on their part. For example, at ¶ 13, Richard, J. said:

. . . The communications . . . between the Plaintiff and Smith and between Smith and Ross Parks . . . disclose a strategy of lies and deceit on the part of Smith and Ross Parks to keep the Plaintiff completely in the dark as to the true extent of the involvement of Ross Parks in the Valley Coffee News franchise . . .

This is reinforced in subsequent paragraphs including:

[18] The evidence in general is somewhat confusing but I conclude that this result was not entirely unintentional on the part of the defendants, especially Ross Parks - it is merely a further manifestation of the efforts to conceal and obfuscate the realities of the situation. For this reason, the following review of the evidence may appear somewhat anecdotal and disjointed.

[33] Informed by these strong and very disparaging factual findings of the trial judge - which are not in themselves challenged by the appellants on appeal - I will turn to a consideration of the judge's treatment of the various causes of action for which the respondent claimed damages. But before doing so I wish to dispose of a new argument raised by the appellants for the first time in this court.

### **Assignment**

[34] Here I will briefly consider a ground of appeal advanced by the appellants for the first time at the hearing. Messrs. Merrick and Mahody on behalf of the appellants Parks and Parrcom say that the trial judge's decision cannot stand because if any copyright exists (which they deny) it does not belong to the numbered company, but rather only to Ms. Jean Daum personally. They say that s. 13(4) of the **Copyright Act** requires that any assignment of copyright be in writing and signed by the owner of the right. There was no such written assignment here, at least at the material times when the impugned conduct and damages were said to have arisen. This they say is fatal to the respondent's claim. They say that both of the appellants were self-represented at trial and some allowance or accommodation

ought to be given to the fact that this issue was not raised before the trial judge. The appellant Lloyd Smith supports the argument.

[35] I am not persuaded by the appellants' submissions. The trial judge repeatedly urged Messrs. Parks and Smith to get a lawyer, and explained to them the risks they ran if they were not legally represented in such a serious case. They chose not to have counsel. I am not prepared to extend to them the accommodation now urged by their appellate counsel. Further, and more importantly, it is too late for the appellants to raise this issue. I accept the respondent's argument that it would have presented evidence and been prepared to face the issue had it been raised at trial. This omission on the part of the appellants explains why the respondent and the trial judge did not feel obliged to deal with the issue when the case was argued. I agree that to introduce this issue for the first time on appeal would be prejudicial to the respondent and it is far too late for this court to consider the matter in the absence of an adequate evidentiary record.

### **Copyright Infringement**

[36] The correct legal test to be applied in Canada with respect to the existence of copyright was described by the Supreme Court of Canada in **CCH Canadian Ltd. v. Law Society of Upper Canada**, [2004] 1 S.C.R. 339 where at ¶ 14 McLachlin, C.J.C. stated:

Section 5 of the *Copyright Act* states that, in Canada, copyright shall subsist "in every original literary, dramatic, musical and artistic work" (emphasis added). Although originality sets the boundaries of copyright law, it is not defined in the *Copyright Act*. Section 2 of the *Copyright Act* defines "every original literary . . . work" as including "every original production in the literary . . . domain, whatever may be the mode or form of its expression". Since copyright protects only the expression or form of ideas, "the originality requirement must apply to the expressive element of the work and not the idea": S. Handa, *Copyright Law in Canada* (2002), at p. 209.

There are competing views on the meaning of "original" in copyright law. Some courts have found that a work that originates from an author and is more than a mere copy of a work is sufficient to ground copyright. . . . This approach is consistent with the "sweat of the brow" or "industriousness" standard of originality, which is premised on a natural rights or Lockean theory of "just desserts", namely that an author deserves to have his or her efforts in producing a work rewarded. Other courts have required that a work must be creative to be

“original” and thus protected by copyright. . . . This approach is also consistent with a natural rights theory of property law; however it is less absolute in that only those works that are the product of creativity will be rewarded with copyright protection. It has been suggested that the “creativity” approach to originality helps ensure that copyright protection only extends to the expression of ideas as opposed to the underlying ideas or facts. . . .

I conclude that the correct position falls between these extremes. For a work to be “original” within the meaning of the *Copyright Act*, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one’s knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one’s capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. For example, any skill and judgment that might be involved in simply changing the font of a work to produce “another” work would be too trivial to merit copyright protection as an “original” work.

(Cases omitted) (Underlining mine)

[37] Under the **Copyright Act**, R.S. 1985, c. C-42 (Parts I, II and III) copyright in a work means the rights described as follows:

3. (1) For the purposes of this Act, “copyright”, in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof, and includes the sole right

(a) to produce, reproduce, perform or publish any translation of the work,

[38] The *Coffee News* can be considered a compilation under s. 2 of the **Copyright Act**, which is defined as:

“compilation” means

(a) a work resulting from the selection or arrangement of literary, dramatic, musical or artistic works or of parts thereof, or

(b) a work resulting from the selection or arrangement of data;

[39] Infringement of copyright is defined under s. 27 of the **Copyright Act**:

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

[40] After referring to the decision of the British Columbia Court of Appeal in **British Columbia Jockey Club v. Standen (Windbar Publications)** [1983] B.C.J. No. 1769, and satisfying himself that *Coffee News* qualified as a compilation under the **Copyright Act**, Richard, J. held:

[31] In the present case it is clear that the defendants availed themselves “of the previous labours of another for the purpose of conveying to the public the same information” and by so doing did “take away the result of another man’s labour”. The defendant’s, in producing and distributing the Flying Cow in the form which they did, infringed the copyright of the Plaintiff.

[41] The appellants say that Richard, J. erred by simply referring to the decision of the British Columbia Court of Appeal in **Jockey Club**, supra, and its reliance upon the English text, *The Modern Law of Copyright* (London: Butterworths, 1980), thereby failing to accurately identify and apply the modern legal test for copyright matters in Canada which Chief Justice McLachlin had articulated in **CCH**, supra.

[42] I respectfully disagree. Having reviewed the trial judge’s reasons it is apparent to me that he considered both the “sweat of the brow” and the “skill and judgment” elements of the originality test as directed by the Supreme Court of Canada. Although Richard, J. did not refer specifically to the Court’s decision in **CCH**, supra, I think it can be said with some confidence that his specific reference to the “skill, judgment and knowledge” excerpt from the English text cited in **Jockey Club**, supra, together with his clear finding in [31] of his decision that the appellants had deprived the respondent of her “labour,” show that the trial judge correctly applied the law.

[43] The trial judge’s finding as a fact that the appellants had infringed copyright in the *Coffee News* by “producing and distributing the Flying Cow in the form in

which they did” was certainly available from the evidence presented at trial. It cannot be said that the judge’s conclusion was the result of any palpable and overriding error.

[44] Finally, the evaluation of that finding in light of relevant legal principles in order to decide whether the respondent had proved a copyright infringement was a question of mixed fact and law. I am satisfied the trial judge made no reversible error of fact. The relevant principles of law are readily extricable and in my opinion their application here meets a standard of correctness.

[45] For these reasons I see no error in the trial judge’s conclusion that the appellants infringed the respondent’s copyright.

### **Passing-off**

[46] Manitoba Inc. also claimed that the appellants caused it damages by passing-off the *Flying Cow* as and for the *Coffee News*. The trial judge agreed.

[47] Section 7 of the **Trade-marks Act**, R.S. 1985, c. T-13 provides:

#### Prohibitions

7. No person shall

...

(b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

(c) pass off other wares or services as and for those ordered or requested;

...

[48] To establish a claim of passing-off the claimant must show three things. First, the plaintiff must establish a goodwill or reputation attached to the goods or services by virtue of its “get-up,” whereby the public has come to identify such an appearance with the wares or services of that individual, thus creating a proprietary

right in that appearance. Second, the plaintiff must establish a misrepresentation by the defendant to the public (whether intentional or not) leading or likely to lead one to believe that the goods or services offered by the defendant are the goods or services of the claimant. Third, the plaintiff must demonstrate that he has or likely will suffer damages by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as the source of those offered by the claimant. See, for example, **Reckitt and Colman Products Ltd. v. Borden Inc.**, [1990] 1 All E.R. 873, cited with approval by the Supreme Court of Canada in **Ciba-Geigy Canada Ltd. v. Apotex Inc.**, [1992] 3 S.C.R. 120. There, Gonthier, J., writing for the Court declared at p. 132:

The three necessary components of a passing-off action are thus: the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff.

[49] Richard, J. recognized and applied these principles to the evidence before him and made very clear findings which are borne out from the record. With respect to the first component, he specifically accepted Ms. Daum's assertion that the appellants had traded on her company's "good will . . . using blatant misrepresentations in order to capitalize on the marketplace for their own financial gain."

[50] With regard to identifying the "get-up" of her publication by which she acquired a proprietary right in its appearance, and the damages caused by the appellants' misrepresentation, the trial judge found:

[28] In my view the Plaintiff endeavoured over a long period of time to establish a particular "get-up" by which the Coffee News could be readily identified, and by so doing did establish a good will or reputation in the product. This is shown by the number of awards and other accolades received by the Coffee News over the preceding years. It is clear that the Defendants, by their actions, did misrepresent the Flying Cow as either the successor to or sister publication of the Coffee News and did thereby deceive members of the public. Such misrepresentation did actually or potentially cause damage to the Plaintiff.

[51] While proof of an intention to deceive is no longer required, the plaintiff must at least demonstrate that confusion in the minds of the public has occurred or will likely arise on account of the defendant's making the product available under

the guise or implication that it was the plaintiff's. Thus as Justice Gonthier made clear in **Ciba-Geigy**, supra, at p. 140, confusion on the part of consumers lies at the heart of passing-off:

There is no question that confusion, which is the essence of the tort of passing-off, must be avoided in the minds of all customers, whether direct . . . or indirect . . .

[52] Both Ms. Daum and Mr. Cohen McInnes described how their customers were confused and what remedial actions they were forced to take to manage the situation. McInnes said he felt as if he had been “raped” by the actions of the appellants.

[53] In his decision the trial judge referred specifically to the testimony of several witnesses before concluding that the appellants had devised “a strategy of lies and deceit” in producing *Flying Cow* as practically identical to *Coffee News*, with the objective being “to cause confusion in the several marketing areas so that advertisers, distributors and readers may be persuaded that the two publications were ‘sister’ editions rather than competitors.”

[54] The appellants cannot seriously suggest that the respondent failed to prove confusion. The appellants’ records, including Smith’s own computerized daily call logs are replete with examples of their attempts to contain, explain and salvage the situation that arose amidst this confusion. It is obvious the trial judge accepted the evidence of witnesses who described not only the appellants’ deceit but overt acts of sabotage which led to “definite confusion between the distributors and advertisers about the relationship existing between *Coffee News* and *Flying Cow*.”

[55] There was ample evidence to support the trial judge’s conclusion that the appellants’ nefarious conduct affected the public at large and not only Ms. Jean Daum. The judge was satisfied that the appellants’ conduct was planned, systematic and deliberate, was designed to deceive Ms. Daum and her company, and do them harm. Recognizing his distinct advantage in seeing and hearing the witnesses, the judge’s findings are owed considerable deference.

[56] It was not incumbent upon the respondent to prove that the appellants were passing-off *Flying Cow* as and for *Coffee News* everywhere in Nova Scotia. All they had to do was show that it was happening in some locations. It was certainly

open to the trial judge to find - as he did - that the appellants' deliberate actions adversely affected the goodwill Ms. Daum had established in Manitoba Inc., overall.

[57] As Richard, J. pointedly observed, a review of the extensive emails introduced at trial gave the reader a sense of “the extent to which Ross Parks et al went in order to keep the plaintiff in the dark as to the true ownership and management of the *Coffee News* franchises in the Valley and elsewhere in Nova Scotia.” Lloyd Smith admitted on cross-examination that as he continued to apply for new franchises in Nova Scotia he would pass on to Ross Parks his email correspondence with Jean Daum, and that he “never told Ms. Daum he was part and parcel of this three way communication.”

[58] Deciding whether the respondent had proved the tort of passing-off was a question of mixed fact and law. It required a careful assessment of the facts, and their subsequent consideration in light of proper legal principles. The trial judge's findings are amply borne out in the record and are not the result of any palpable and overriding error. The judge's application of the law when disposing of this question was correct.

[59] For these reasons the trial judge's conclusion that the respondent was entitled to damages from the appellants for passing-off, should not be disturbed.

### **Interference with contractual relations**

[60] Richard, J. expressly found that the appellants committed the tort of direct interference with the contractual relations of the respondent. He said:

[25] . . . I am satisfied on a balance of probabilities that the defendants acted in concert, or implicitly as partners, to interfere with the contractual relations of the Plaintiff in violating the franchise agreements by attempting to pass off the Flying Cow as the Coffee News.

[61] The particular complaint alleging the tort of intentional interference with the respondent's contractual relations is not outlined with great specificity. The



extracts from the statement of claim to which this particular allegation refers are found in paragraph 9 which provides:

9. . . . The Plaintiff states that the Defendants then took steps to contact Coffee News advertisers and distributors, known to the Defendants to have contracts with the Plaintiff or its franchisees, and intentionally interfered with these contracts by conduct, including but not limited to:
  - (i) suggesting that the Coffee News would no longer be published and would be replaced by the Flying Cow;
  - (ii) suggesting that the Flying Cow was the legitimate successor to the Coffee News;
  - (iii) suggesting that the Flying Cow was under common ownership with the Coffee News; and
  - (iv) soliciting clients of the Coffee News to abandon contracts with the Coffee News and to place contracts for advertising space with the Flying Cow.

and further at:

22. The Plaintiff repeats the foregoing and claims against the Defendants jointly and severally:
  - (i) injunctive relief restraining . . . the defendant from further interfering with the contracts and business of the Plaintiff . . .

[62] As appears from the respondent's own pleadings, Manitoba Inc. did not allege that the appellants were liable in tort for inducing the respondent to breach its own contracts. Rather, the alleged tort was narrowed to a complaint that the appellants were liable for direct interference with the respondent's contractual relations.

[63] For the reasons that follow I would agree with the appellants that the respondent's offer of proof was insufficient to establish this segment of its claim for damages (excepting the loss arising in New Brunswick which I dispose of in [109] *infra*). However, I do not think it matters in the end. In my opinion the general damages awarded by the trial judge (and which I have gone on to reduce)

were intended to incorporate collectively, compensation for losses suffered by the respondent on account of copyright infringement, and passing-off, and interference with the respondent's own contractual relations. Since the general damages for infringement, and passing-off, are in my opinion quantifiable, and legitimately tied to the appellants' tortious conduct, it does not matter to the outcome that the respondent's attempt to support a claim for additional damages for interference in its contractual relations, was found wanting.

[64] The identities of the "advertisers and distributors" whom the appellants are said to have contacted, are not provided. While the pleadings do provide particulars in (i) through (iv) as to the means whereby such interference was attempted, one cannot state with precision what "contracts" or "business" were adversely affected.

[65] This lack of precision was amplified at trial by the way in which Manitoba Inc. presented its evidence. Justice Richard would not have derived much help from the evidence in attempting to quantify these alleged losses or link them to the appellants' conduct. Having reviewed the testimony of the various witnesses and considered the documentary evidence I am of the opinion that it would be impossible to assign a fair and accurate figure to this segment of the claim for damages said to have resulted from the appellants' intentional interference with the respondent's contractual relations.

[66] It will not be necessary for me to list and define the specific elements of the tort of inducing breach of contract, or the tort of intentional interference with contractual relations, or to embark upon an analysis as to whether each action is the same in all cases. Suffice it to say that the law in this area continues to evolve. See for example **Allister Harlow Construction Ltd. v. Shelburne Shopping Centre Ltd.** (1981), 45 N.S.R. (2d) 27; **Matsushita Electric of Canada Ltd. v. Central Trust Co.** (1986), 73 N.S.R. (2d) 250; **M. A. Hanna Co. v. Nova Scotia (Premier)** (1990), 97 N.S.R. (2d) 281; **Industrial Union of Marine & Shipbuilding Workers of Canada Local 1 v. I.B.E.W., Local 625** (2001), 198 N.S.R. (2d) 60 (N.S.S.C.); and [2002] N.S.J. No. 188 (C.A.); **Daishowa Inc. v. Friends of the Lubicon et al** (1996), 27 O.R. (3d) 215; **Waxman v. Waxman**, [2004] O.J. No. 1765 (C.A.), [2004] S.C.C.A. No. 291; **Verchere v. Greenpeace Canada**, 2004 BCCA 24; **Super-Save Enterprises Ltd. v. 249513 B.C. Ltd.**, 2004 BCCA 183; **39413 Alberta Ltd. v. Pocklington**, 2000 ABCA 307; and

**Pepsi-Cola Canada Beverages (West) Ltd. v. Retail, Wholesale and Department Store Union, Local 558** (1998), 172 Sask. R. 40 (C.A.), 1 S.C.R. 156.

[67] Because of the way in which I have disposed of this segment of the claim it will not be necessary for me to address the appellants' complaint that the respondent failed to plead the appropriate tort or effectively confused and co-mingled allegations of breach of contract by "direct" or "indirect" interference with contractual relations, or interference with economic relations.

[68] This will avoid having to plumb the depths of the inadequate record in this case so as to explore what my colleague Justice Cromwell has succinctly described as the "highly controversial issues regarding the elements of the economic torts." (**IBEW, Local 625**, supra, at ¶ 42.)

[69] For whatever the elements, the plaintiff must prove that the defendants caused a loss, and then offer proof from which such damages might be fairly assessed. In this the respondent fell short.

[70] Here the trial judge failed to identify which franchise agreements had been violated. Neither did he describe how they had been violated, or if so, what monetary loss was suffered by the respondent as a consequence.

[71] In my opinion, Manitoba Inc. failed in its burden of showing the extent to which it suffered monetary loss for the appellants' deliberate interference in the business relationships it had with others.

### **General Damages**

[72] The trial judge awarded general damages totalling \$139,000. This award was broken down into three parts. First, the trial judge awarded \$117,000 which was said to represent franchise fees the respondent was unable to collect on account of the appellants' actions, and in particular the losses attributed to the "flipping" of the franchises from *Coffee News* to *Flying Cow*.

[73] Additionally, the respondent was awarded \$12,000 said to represent her payment of debts “as a direct result of advertising fees which were wrongfully appropriated and applied to *Flying Cow* publications in the Antigonish area.”

[74] A further \$10,000 was awarded as “a result of a direct intervention by Ross Parks into the Fredericton area.”

[75] While noting Ms. Daum’s testimony that she had spent about 2,000 hours of her own time in protecting her corporate interests, the judge declined to award any damages on account of those efforts noting:

... There is nothing in evidence to suggest a dollar amount which this cost the Plaintiff directly.

[76] We will not disturb a trial judge’s award of damages unless it can be demonstrated that the judge applied a wrong principle of law or has set an amount so inordinately high or low as to be a wholly erroneous estimate. See, for example, **Toneguzzo-Norvell et al v. Savein et al** (1994), 110 D.L.R. (4<sup>th</sup>) 289 (S.C.C.); **Campbell-MacIsaac v. Deveaux & Lombard**, 2004 NSCA 87; **McPhee v. Gwynne-Timothy**, 2005 NSCA 80; and **Ken Murphy Enterprises Ltd. v. Commercial Union Assurance Company of Canada**, 2005 NSCA 53.

[77] The trial judge’s calculation of general damages is sparse, taking up only fourteen lines of the decision:

[34] General Damages - Ms. Daum said that the Plaintiff could not collect franchise fees of about \$117,000. This amount appears to be based on an estimate of the fees lost by the Plaintiff as a result of various defaults by the defendants and the losses attributed to the "flipping" of the franchises from Coffee News to Flying Cow. Additionally, the Plaintiff paid debts of \$12,000 as a direct result of advertising fees which were wrongfully appropriated and applied to Flying Cow publications in the Antigonish area. As a result of a direct intervention by Ross Parks into the Fredericton area the Plaintiff claims losses of about \$10,000.

[35] Ms. Daum said that she spent about 2000 hours of her time in protecting the Plaintiff’s interests which were being threatened by the unlawful actions of the defendants. There is nothing in evidence to suggest a dollar amount which this cost the Plaintiff directly.

[36] In the result, I award general damages to the Plaintiff in the sum of \$139,000.00.

[78] The only explanation for the largest portion of general damages, that being the \$117,000 is found in these few lines which I will repeat for emphasis:

Ms. Daum said that the Plaintiff could not collect franchise fees of about \$117,000. This amount appears to be based on an estimate of the fees lost by the Plaintiff as a result of various defaults by the defendants and the losses attributed to the "flipping" of the franchises from Coffee News to Flying Cow.

[79] The only explanation for the additional \$12,000 award is the judge's statement that:

. . . the Plaintiff paid debts of \$12,000. as a direct result of advertising fees . . . wrongfully appropriated and applied to Flying Cow publications in the Antigonish area.

[80] Finally, the only explanation given by the trial judge for the remaining \$10,000 award is that this sum represents losses caused as:

. . . a result of a direct intervention by Ross Parks into the Fredericton area . . .

[81] The appellants attack this award of general damages on three principal bases. First, the appellants say there was no evidence to support any or all of these awards. Second, the appellants say the respondent at trial did nothing more than "throw numbers at the head of the court" without making any attempt to either prove the extent of the loss or then link the loss to the appellants' actions. Third, the appellants complain of duplication or double recovery in certain respects.

[82] In this I agree with some of the appellants' submissions. For the reasons that follow I would allow the appeal in part.

[83] In challenging the respondent's proof especially in terms of dollar damages, the appellants rely upon Lord Goddard's wise admonition in **Bonham-Carter v. Hyde Park Hotel** (1948), 64 T.L.R. 176, at 179:

Plaintiffs must understand that if they bring actions for damages, it is for them to prove their damage; it is not enough to write down the particulars, and, so to

speaking, throw them at the head of the court, saying: "This is what I have lost, I ask you to give me these damages."

[84] This statement of the law by Lord Goddard, C.J. was cited with approval by this court in **Capital Placement of Canada (C.P.C.) Ltd. v. Wilson** (1988), 83 N.S.R. (2d). There, Clarke, C.J.N.S. noted:

[40] . . . The normal rules apply and the respondent is put to its proof.

[41] In **Municipal Spraying & Contracting Limited v. J. Harris & Sons Limited et al.** (1980), 35 N.S.R. (2d) 235; 62 A.P.R. 235, Hallett, J., wrote at page 244,

In **McGregor on Damages** (13th Ed.), at p. 935, appears the following quotation dealing with the burden of proof of damages:

The plaintiff has the burden of proving both the fact and the amount of damage before he can recover substantial damages.

In a footnote, Lord Goddard, C.J., in **Bonham-Carter v. Hyde Park Hotel** (1948), 64 T.L.R. 177, is quoted as follows:

Plaintiffs must understand that if they bring actions for damages it is for them to prove their damage; it is not enough to write down the particulars, and, so to speak, throw them at the head of the court, saying: "This is what I have lost, I ask you to give me these damages." They have to prove it.

[85] In his text entitled *The Law of Damages*, looseleaf (Toronto: Canada Law Book, 2006), Waddams says the following about the proof of loss:

The general burden of proof lies upon the plaintiff to establish the case and to prove the loss for which compensation is claimed.

[86] For this proposition, he quotes **Bonham-Carter, Municipal Spraying & Contracting Limited v. J. Harris & Sons Limited et al** as well as **British Columbia v. Canadian Forest Products Ltd.**, [2004] 2 S.C.R. 74; **Reliable**

**Leather Sportswear Ltd.**, [1955] 2 D.L.R. 14 (S.C.C.); and **Cotter v. General Petroleums Ltd.**, [1951] S.C.R. 154.

[87] In **British Columbia v. Canadian Forest Products Ltd.**, supra, the Supreme Court of Canada was asked to consider the question of compensation for environmental damage. Binnie, J., speaking for the majority, said this about the Crown's failure to lead the proper evidence in support of its damage claim:

12 A claim for environmental loss, as in the case of any loss, must be put forward based on a coherent theory of damages, a methodology suitable for their assessment, and supporting evidence. No one doubts the need for environmental protection but, in this case, apart from the cost of reforestation, which was agreed to, the Crown claims only stumps and "diminution of the value of the timber" within the burned-over area. The environment includes more than timber, but no allegations of loss were made in that regard. The pleadings, in other words, suggested a fairly narrow commercial focus and that is how the claim was defended.

13 The evidentiary record is also singularly thin on what precise environmental loss occurred, apart from damage to trees, and what value should be placed on it. The evidence of the Crown's own valuation experts, Deloitte & Touche, offered no support for the Crown's present expanded posture on environmental loss.

14 We cannot treat the Crown's argument as evidence; nor can we read into the record a theory of valuation that, rightly or wrongly, was supported by none of the experts. The Crown may have a more substantial environmental claim than is before us but she didn't prove it. Thus, while I would not interfere with the Court of Appeal's disposition of the claim in respect of the harvestable timber, in my opinion, with respect, the Crown did not establish its claim for compensation for environmental damage. I would therefore allow Canfor's appeal in that respect. The Crown's cross-appeal should be dismissed.

[88] Finally, in **Cotter v. General Petroleums Ltd.**, [1951] S.C.R. 154, Cartwright, J., in concurring reasons, said at p. 175:

. . . It is well settled that the mere fact that damages are difficult to estimate and cannot be assessed with certainty does not relieve the party in default of the necessity of paying damages and is no ground for awarding only nominal damages, but the onus of proving his damages still rests upon the plaintiff.

[89] The onus was on Manitoba Inc. to provide cogent evidence of the losses claimed and show that those losses were caused by the wrongful actions of the appellants. It was for the respondent to produce sufficient evidence to permit the court to make a reasoned award. In my respectful opinion it failed to do so and the judge erred in fixing the awards described above.

[90] From the spotty evidence that does appear in the record, I will attempt to reconstruct what I consider to be an appropriate measure of damages.

[91] I will begin with the amount of \$117,000. The only evidence put before the trial judge to support that amount was the testimony of Ms. Daum. However, when one carefully examines her evidence we see that this amount was in relation to franchise fees she chose not to collect in order to support her franchisees during the bitter dispute with *Flying Cow*.

A. They were franchise fees that I couldn't collect because of the amount of interference from Flying Cow and to support my franchisees I couldn't take money from them and put them in jeopardy and then...and...danger of going bankrupt themselves so I choose to support my franchisees during the time we had to wage war with Flying Cow.

Q. And what...what is the sum of that?

A. In total I (sic) would be about \$117,000.

[92] Ms. Daum did not present any backup or support for this “loss” nor offer any evidence as to how it was calculated. We know that the amount did include franchise fees from her Halifax franchisee, Mr. Cameron Thompson, from the time *Flying Cow* came into existence up until the date of trial. However, there was no evidence as to whether, and if so which, of her other franchisees were involved. There was no evidence any of the franchisees requested or needed such assistance, or if they did, whether their difficult circumstances were solely the result of competition from *Flying Cow*. Perhaps most telling was the evidence of Mr. Thompson on cross-examination when he acknowledged that he was able to pay the franchise fees if he chose to do so.

Q. You're currently paying franchise fees to Ms. Daum?



A. No, I'm not.

Q. You would agree with me that since the Flying Cow started publication in Halifax you have been able to continue and you are able to pay license fees if you wanted to Ms. Daum?

A. Yes." (Transcript p. 419)

[93] I will now address the evidence that would support some measure of damage.

[94] Documentary evidence established that unknown to her, Smith and Parks had set up ten publishing zones, when Ms. Daum only knew of the four that had actually been licensed. Her testimony and other documentation suggested that this deception resulted in lost franchise fees from Lloyd Smith worth \$8,000.

[95] It would have been open to the trial judge to conclude from the evidence that Mr. Cohen McInnes' unsuccessful franchise was directly due to the actions of the appellants. Ms. Daum testified that when Mr. McInnes was forced to shut down his operations she gave him \$500 towards his phone bill and suffered further losses of approximately \$12,000 as a result.

[96] Ms. Daum estimated she was owed a further \$40,000 from Messrs. Parks and Smith for the revenue lost in the several publication zones which they deliberately concealed from her. Evidently this \$40,000 sum includes the \$8,000 mentioned earlier.

[97] While Ms. Daum spoke of two or three other lost opportunities to sign franchisees there was no evidence with which to quantify the extent of the claim.

[98] These are the only figures I can track with any degree of confidence as constituting legitimate "losses" directly related to the appellants' conduct. With respect, it was not enough for Ms. Daum to simply "throw out" a figure of \$117,000 as representing the equivalent of her inability to collect franchise fees, without that figure linked to specific franchisees as well as showing a probable connection between those losses and the appellants' conduct. With respect, it was not enough for the trial judge to have accepted the respondent's figure based on an

appearance, or an estimate, of lost fees through some vague, unspecified “various defaults” or “flipping” of unidentified franchises.

[99] While the deceitful, manipulative, tortious conduct of the appellants is in no way excused, nonetheless it was for the respondent to present sufficiently reliable evidence to support her losses and not simply throw figures in the air for the judge’s consideration. For the reasons stated I find that she failed to prove certain aspects of her case.

[100] In the result, based on the foregoing analysis, I would reduce this segment of general damages from \$117,000 to \$52,500 as follows:

	\$8,000 (lost fees from Lloyd Smith)
	500 (telephone charges)
	12,000 (Colin McInnes’ losses)
	<u>32,000</u> (\$40,000 - \$8,000 double recovery)
TOTAL:	\$52,500

[101] In my opinion, an award for losses totalling \$52,500 represents those damages that can be directly linked to the appellants’ actions.

[102] The next challenged figure is \$12,000 which the judge said arose from advertising fees “wrongfully appropriated” by the appellants in the Antigonish area.

[103] The appellants challenge this part of the award on account of duplicity, saying it is already compensated for in the judge’s initial award of \$117,000. The appellants put it this way in their factum:

The only conclusion that can be reached on the evidence is that the losses of \$12,000 that were in addition to the phone bill were franchise fees that she chose not to collect. But if that is correct then that amount was already included in the \$117,000.

[104] I disagree with the appellants’ submission. A fair reading of Ms. Daum’s testimony is that in her “calculation” of \$117,000 for uncollected franchise fees, she specifically excluded the fees she paid on behalf of Mr. Cohen McInnes. For example, McInnes testified that Daum paid \$10,000 to cover his franchise fees and

printing costs due to the failure of the Antigonish/Port Hawkesbury *Coffee News* (Appeal Book, page 133). Daum testified that she paid \$500 for his telephone bill and a further \$12,000 out of her own pocket due to McInnes being forced to shut down his operation. Then after specifying further losses, Ms. Daum was asked by her solicitor under direct examination whether she had suffered any losses “in addition” to those mentioned. Finally, in the respondent’s counsel’s post-trial submissions he once again used the words “in addition to that” when referring to alleged losses quite distinct from what the respondent said she lost in Antigonish.

[105] Accordingly, by the respondent’s own evidence and theory of the case, there was no duplicity. Although the \$12,000 was franchise fees which the respondent chose not to collect, she identified this amount as separate from the sum of \$117,000 which she urged be awarded to her.

[106] I do not accept the appellants’ submission that this sum is not a “loss” to the respondent for which they should be liable, because she “chose” not to collect it from her franchisees. In the circumstances of this case I consider it fanciful to suggest that the respondent had any choice in the matter. Rather, the appellants’ tortious conduct which caused such disruption to the respondent’s business operations forced her to accept losses or adopt other creative but benevolent means to save the operation and reduce her own damages. The evidence discloses a probable link between these particular losses and the appellants’ conduct in the Antigonish/Port Hawkesbury area. I would not disturb the award.

[107] I turn now to the final amount of \$10,000 which the trial judge awarded “as a result of a direct intervention by Ross Parks into the Fredericton (sic) area...” I think the trial judge made an obvious slip when he spoke of Fredericton rather than Moncton. Ms. Daum had testified about the difficulty she had encountered with her Moncton franchise. We see this exchange:

A. The Moncton franchise...it was owned...it was bought by Stephan Diotte in March of 2002 and immediately...there was no...I sent out the agreements for him to send back and send in his post dated cheques because he was buying an existing franchise and the fees were due immediately. And this franchise, I talked later with Stephan Diotte to find out, you know, like what happened and it was Ross' involvement to tell him not to send in his franchise fees, not to send in the agreement, that I couldn't do anything about it, and...

Q. What did you eventually do with Mr. Diotte?

A. I took him to small claims court and I won the case.

Q. In New Brunswick? And you got a judgement against him?

A. Yes.

Q. And the amount of the judgement?

A. It was the full judgement. I think it was the maximum of \$6,000 but we...we...we accepted \$4,000 from Stephan Diotte because he was not...not very...he was not very well off financially. And he was trying.

Q. Well, what did it cost you to bring that action in to get your \$4,000?

A. Probably about...well, including Steve Watton's trip out there to investigate and bring pictures back of the Coffee News in Moncton with Stephan's phone number on it and to find out where Stephan had moved to, what his new...

Q. What was the bottom line of the cost?

A. About \$10,000.

[108] It must be remembered that the appellants chose to represent their own interests at trial. Their efforts in effectively cross-examining the respondent were largely unsuccessful. While one would reasonably expect that any weakness or uncertainty surrounding this segment of the respondent's claim for damages would have been explored by experienced counsel on cross-examination, the fact remains that by the respondent's own evidence the sum of \$10,000 is suspect.

[109] Ms. Daum's evidence was that she had to chase the Moncton franchisee to recover franchise fees. She eventually sued him, recovered judgment and ultimately settled for \$4,000. She said she spent \$10,000 which included hiring someone to track down the franchisee. There was no evidence as to whether the \$10,000 was net of the settlement recovery. Leaving it so vague is a responsibility that should rest with the respondent. I would therefore reduce this segment of the trial judge's award by \$4,000 representing settlement monies recovered from the defaulting franchisee. This would leave a balance of \$6,000 as a net loss directly

linked to the actions of the appellants and for which they ought to be held accountable.

[110] In summary I would award the respondent general damages of:

	\$52,500
	\$12,000
	<u>\$ 6,000</u>
Total:	\$70,500

### **Punitive Damages**

[111] As I have already emphasized, the trial judge made very strong findings against the appellants. He obviously accepted Ms. Daum's evidence before concluding that she had been badly treated and victimized through the appellants' deliberate scheme of deception. His characterization of the appellants' actions was both sharp and disparaging.

[112] The appellants do not challenge those findings. However, they say that those conclusions hindered the trial judge's analysis and impartial application of the law. In this they say he erred, prompting him to impose liability where it did not lie, or award damages that cannot be supported on the evidence.

[113] I agree with the appellants' submissions to a certain extent. For the reasons that follow I would allow the appeal in part by reducing the trial judge's award for punitive damages.

[114] After awarding the respondent general damages the trial judge went on to cite the Supreme Court's decision in **Whiten v. Pilot Insurance Co.**, [2002] 1 S.C.R. 595 and then conclude:

[37] Punitive Damages - The conduct of the several defendants in this matter was of such a cavalier and egregious nature as to demand consideration of some sort of retribution or penalty. . . .

[38] The present case seems particularly appropriate for consideration of the award of punitive damages. . . .

[39] The defendants (sic) conduct in the present case was clearly planned and deliberate; their intent and motive was to deprive the Plaintiff of its business opportunity in the franchise areas; the evidence suggests that the Defendants are persisting in their outrageous conduct; the Defendants certainly concealed or attempted to cover up their misconduct; only the wilfully blind could be unaware that such conduct was wrong; and finally, one can only conclude, since the Flying cow (sic) is still being circulated in the franchise areas, that the Defendants profited from their misconduct. Therefore, a clear case has been made out for the award of punitive damages.

[40] The conduct of the Defendants in this case was highly reprehensible. As stated at paragraph 112 of **Whiten** “The more reprehensible the conduct, the higher the **rational** limits to the potential award.” Bearing all of this in mind I fix punitive damages of \$100,000.00.

[115] As noted, these findings of fact are not challenged by the appellants. However, they say that the trial judge’s characterization of their actions blurred his analysis of the law. They say that he failed to apply the proper legal standard to a given set of facts.

[116] For reasons I will now develop, I find the judge erred in law by failing to address the relevant considerations set out in **Whiten**, which must be taken into account, first when deciding whether to award punitive damages, and second in establishing their quantum if they are to be awarded. It therefore falls to this Court to conduct the requisite analysis and determine the appropriate figure, if any, for punitive damages while paying appropriate deference to the trial judge’s findings of fact relevant to this exercise.

[117] A preliminary question must first be addressed, that being whether punitive damages are available in intellectual property cases. I am satisfied that they are.

[118] The analysis invokes the application of sections 34 and 35 of the **Copyright Act**. Section 34(1) describes the remedies that are available for copyright infringement:

34. (1) Where copyright has been infringed, the owner of the copyright is, subject to this Act, entitled to all remedies by way of injunction, damages, accounts, delivery up and otherwise that are or may be conferred by law for the infringement of a right.

[119] In *Fox Canadian Law of Copyright and Industrial Designs*, 4<sup>th</sup> ed. (Toronto: Carswell, 2003), at p. 24-74, ¶ 24:15(d), John S. McKeown describes the operation of s. 35 in relation to punitive damages, citing **Vorvis v. Insurance Corp. of British Columbia** (1989), 58 D.L.R. (4<sup>th</sup>) 193 (S.C.C.):

Although punitive or exemplary damages are not specifically mentioned in section 35, it is well established that they may be awarded in appropriate circumstances. Punitive damages are designed to punish. . . . They may only be employed in circumstances where the conduct giving the cause for complaint is of such a nature that it merits punishment.

[120] Awarding punitive damages in copyright or patent infringement cases was approved by the Federal Court of Appeal in **Lubrizol Corp. v. Imperial Oil Ltd.**, (1996) 197 N.R. 241, p. 255, where Stone and Linden, J.J.A., relied on the principles in **Vorvis** and stated on behalf of the Court:

[33] In recent years, there have been many awards of punitive or exemplary damages made by Canadian courts. They have not been limited to defamation and intentional tort situations, where they are most prevalent, but they may be awarded in contract cases, in certain negligence cases, fiduciary relationship cases, and other situations where the court, in a civil case, feels that it is necessary to condemn the outrageous conduct of a defendant. We can see no reason why, in appropriate circumstances, punitive or exemplary damages could not be available in a copyright, or patent infringement case, a type of statutory tort claim, and counsel have not even suggested that they should not be permissible.

[121] In *Computer Law*, 2<sup>nd</sup> ed. (Toronto: Irwin Law, 2003), George S. Takach, citing **Whiten**, observes at p. 122-123:

Damages based on a wide variety of measures can be awarded when infringement of an intellectual property right is proven. . . . A court may award damages for copyright infringement even where the infringer made no profits. The Copyright Act also contains a statutory damages provision that permits a court to award monetary damages between \$500 and \$20,000. Punitive or exemplary damages for copyright infringement or trade secret misappropriation can also be awarded where the defendant's conduct is egregious and shows virtual contempt for the intellectual property rights of the plaintiff. An infringer of another person's patent is liable for all damages sustained by the patent holder, and such damages may be expressed as a payment of reasonable or generous royalties in such a manner as is considered to be fair in all of the circumstances of the case. A court may also award punitive damages in a patent infringement suit. . . .

[122] In **Apotex Inc. v. Merck & Co.** (2003), 26 C.P.R. (4<sup>th</sup>) 278, the Federal Court of Appeal applied the principles from **Whiten**, supra, in a patent infringement case. Sharlow, J.A., speaking for the Court first explained the principles of punitive damages and then left it open for the trial judge to determine whether they ought to be awarded because of the finding at ¶ 35 that “the motions judge erred in deciding punitive damages were owed before other remedies are determined.”

[123] Thus, while punitive damages are available in intellectual property cases, it must be remembered that such an award is only justified in exceptional cases when the defendant’s conduct is such as to require punishment.

[124] The dimensions for an award of punitive damages were described by Justice Binnie in **Whiten**, supra. However, before referring to those parameters here, it would do well to repeat the circumstances which led to an award of punitive damages in that case. The appellant, her husband and their daughter were forced to flee their house in frigid temperatures after midnight upon discovering a fire. They were clad in skimpy nightclothes. The husband gave his slippers to his daughter so that she could run for help. He suffered serious frostbite to his feet. The fire totally destroyed the home and contents including their three cats. The appellant was able to rent a small, winterized cottage nearby. The respondent insurer made a single \$5,000 payment for living expenses. It covered the rent for a couple of months but then cut off payments without notice, thereafter adopting a confrontational stance, leaving the appellant’s family in precarious financial circumstances. The matter eventually proceeded to trial based on the insurer’s allegation that the family had torched their own home, even though the local fire chief, the insurer’s own investigator, and its initial expert all said there was no evidence of arson whatsoever. The insurer’s position was wholly discredited at trial and its lawyer on appeal conceded that there was no air of reality to the allegation of arson. The civil jury awarded compensatory damages, plus \$1 million in punitive damages. A majority of the Court of Appeal allowed the appeal in part and reduced the punitive damages award to \$100,000.

[125] In a 6:1 decision (LeBel, J. dissenting) the Court allowed the appeal and restored the jury award of \$1 million in punitive damages. The respondent insurer’s cross-appeal against the award of any punitive damages was dismissed.



In writing for the majority, Justice Binnie observed that while the jury's award of punitive damages was high, it was within rational limits. The respondent's conduct towards the appellant was exceptionally reprehensible. In rejecting her claim, the insurer hoped to force her to settle for less than she deserved. The respondent's conduct was described as planned and deliberate. It continued for over two years. Evidently the jury wished to send a powerful message of denunciation, retribution and deterrence.

[126] In considering the merits of the appeal Justice Binnie conducted a detailed comparative analysis of the experience in other common law jurisdictions. He then developed what he described as ten "general principles" which I will précis and list as follows:

1. Limiting punitive damages to a particular category of case should be abandoned in favour of an approach that rationally considers whether the circumstances warrant the addition of punitive damages to punish conduct, quite apart from compensatory damages in a civil action.
2. The general objectives of punitive damages are punishment (in the sense of retribution), deterrence of the wrongdoer and others, and denunciation (as an expression of outrage at the impugned egregious conduct).
3. Punitive damages should be resorted to only in exceptional cases and with restraint.
4. Pejorative descriptions like "highhanded," "oppressive," "vindictive," etc. offer little guidance to a judge or jury when setting an amount for punitive damages. A more principled and less exhortatory approach is desirable.
5. Rationality must be achieved. The court should relate the facts to the underlying objectives of punitive damages and ask itself two questions: how, in particular, an award would further one of those purposes, and what is the lowest award that would serve that purpose, because any higher award would be irrational.

6. It will be rational to use punitive damages to relieve a wrongdoer of its profits in a situation where compensatory damages would amount to nothing more than a licence fee to earn greater profits through continuing outrageous disregard of the legal or equitable rights of others.
7. Since the proper focus is not the plaintiff's loss but rather the defendant's misconduct, a formulaic approach such as one with a fixed cap or a fixed ratio between compensatory and punitive damages is to be rejected. Such a mechanical approach would not allow for the many variables that arise in any given case.
8. In fixing an amount for punitive damages the governing rule is proportionality, such that the overall award should be rationally related to the objectives for which punitive damages are awarded. In stating this principle the Court reiterated its endorsement of the "if, but only if" test which states that punitive damages should only be awarded where compensatory damages are inadequate to punish the defendant. In other words they are intended as a "topping up" award and a remedy of last resort. Relevant factors will include the reprehensibility of the defendants' conduct; whether the defendant has already been punished (for example under the criminal law which may be an absolute bar), and the parties' respective means.
9. Trial judges are obliged to offer more guidance to civil juries (with suggestions in this respect offered by Binnie, J. at ¶ 94 of his decision), and
10. Punitive damages are not "at large" and "an appellate court is entitled to intervene if the award exceeds the outer boundaries of a rational and measured response to the facts of the case."

[127] As the Court made clear in **Whiten**, supra, one of the requirements to be considered in fixing punitive damages is that it be the minimum necessary to achieve the objectives such an award is intended to serve. As Binnie, J. noted at ¶ 94:

. . . they are given in an amount that is no greater than necessary to rationally accomplish their purpose.

and further, at ¶ 101:

The “rationality” test applies both to the question of whether an award of punitive damages should be made at all, as well as to the question of its quantum.

[128] Although in the case before us the trial judge cited **Whiten**, supra, I have respectfully come to the conclusion that he erred by restricting his analysis to a discussion of the appellants’ “level of blameworthiness” while neglecting to consider the other fundamental principles which justify its application. More particularly the trial judge failed to give any consideration to proportionality, something Justice Binnie described as “the key to the permissible quantum of punitive damages.” While observing that retribution, denunciation and deterrence are the recognized objectives for an award of punitive damages, “the means must be rationally proportionate to the end sought to be achieved.” Binnie, J. then went on to explain how proportionality must be considered in several dimensions and not simply restricted to a consideration of proportionality relative to the blameworthiness of the defendant’s conduct. Other factors will include proportionality with respect to: the degree of vulnerability of the plaintiff; the harm or potential harm directed specifically at the plaintiff; the need for deterrence; a consideration of other penalties; and the advantage gained by the defendant from the impugned misconduct.

[129] At all events, as Justice Binnie pointed out at ¶ 123, the trier must not forget that:

Compensatory damages also punish. In many cases they will be all the “punishment” required. . . . The key point is that punitive damages are awarded “if, but only if” *all* other penalties have been taken into account and found to be inadequate to accomplish the objectives of retribution, deterrence, and denunciation. . . .

[130] For these reasons I say that the trial judge erred in law, first by failing to complete the necessary analysis in order to decide whether punitive damages were in fact justified, and second, by setting quantum at \$100,000 without addressing the “several dimensions” from which proportionality ought to be assessed.

[131] In the circumstances of this case I do not think it would be appropriate to remit this single issue to the trial judge for a proper consideration. Such a direction would be especially problematic as the judge has recently retired from the bench. Based on the record before us I think we are equipped to decide the issue.

[132] First, in relating proportionality to the blameworthiness of the appellants' actions I would agree with the trial judge's characterization of their conduct, its duration, its intended purpose and the fact that the appellants profited from their misconduct.

[133] Next, in relating proportionality to the degree of the respondent's own vulnerability I do not discern from the evidence any real imbalance between the respondent and the appellants during the course of their extended transactions. Ms. Daum was hardly a neophyte in business. The evidence confirms that she is a very smart, successful, aggressive and savvy entrepreneur. Rather than succumb to the appellants' pernicious behaviour she outfoxed them at practically every turn once she discovered what they were doing behind her back.

[134] Next, with respect to proportionality to the harm or potential harm directed at the respondent, I see no error in the judge's conclusion that the appellants' actions were designed to seriously disrupt or destroy the respondent's business operations in the region.

[135] In relating proportionality to the need for deterrence there was certainly evidence to support the trial judge's conclusion that the appellants deliberately set out to deprive Manitoba Inc. of its business opportunities in the franchise areas and that at the time of trial they were "persisting in their outrageous conduct." Thus, in my opinion both specific and general deterrence are factors which can be weighted heavily in favour of the respondent.

[136] Next, in relating proportionality to other penalties imposed upon the appellants it is clear that the trial judge gave no consideration to the "if, but only if" approach. However, having conducted that analysis myself and taking into account the reduction I have made to compensatory damages, I conclude that compensation without more, would be inadequate to meet the objectives of retribution, deterrence and denunciation. In my opinion, this is a case where

punitive damages are required to top-up the award and punish the appellants' egregious conduct.

[137] Finally, in assessing proportionality in relation to the advantage wrongfully gained by the appellants from their misconduct, it is impossible to quantify the appellants' "gain" at the expense of the respondent, other than to observe that they are still in business and in competition with the respondent for the same advertising market. Such scanty evidence is not enough for me to calculate the extent to which the appellants profited from their misconduct.

[138] Having conducted the necessary analysis I cannot say that the trial judge's award of \$100,000 in punitive damages was within rational limits. With respect, the award does "overshoot its purpose." It is so disproportionate as to exceed the bounds of rationality. I would reduce the award for punitive damages to \$40,000.

**Lloyd Smith, appearing on his own behalf as appellant**

[139] The written and oral submissions advanced by the appellant Lloyd Smith are essentially an attempt to distance himself from the judge's findings concerning the other appellants, or to challenge certain conclusions reached by the judge concerning Smith's own actions.

[140] Smith's particular complaints challenge findings made by the trial judge on matters of credibility for which any trial judge has a recognized advantage. His other arguments refer to matters which are largely immaterial and hardly determinative. In any event, they are not shown to be the result of palpable and overriding error. **Housen.**

[141] I see no merit to Smith's submissions. At the hearing he insisted that he was not in any way involved in the design, creation or operation of *Flying Cow*; that it was never his intention to deceive Ms. Daum; that he was not aware of any *animus* between Ross Parks and Ms. Daum; and that the trial judge erred in linking him to either Ross Parks or Parrcom. In effect the appellant Smith is asking us to re-try the case. That is not our function. The trial judge made very clear and strong findings of fact and credibility in favour of the respondent. There was certainly evidence to permit the trial judge to find - as he did - that Smith was intimately

involved with *Flying Cow* at all material times and was a full participant with Parks and Parrcom in their tortious conduct towards the respondent.

[142] In finding that the appellant Smith was jointly and severally liable with the other appellants, I am not at all persuaded that the trial judge's conclusion was the result of an error in law, or a palpable and overriding error of fact.

### **Costs**

[143] Success has been divided. I would order each side to bear their own costs on appeal. I would not make any adjustment to the trial judge's award of \$10,000 costs to the plaintiff at trial.

### **Conclusion**

[144] The trial judge's order filed May 16, 2006 is varied in part as follows:

- (i) General damages are reduced and clause no. 3 of the order is revised to read:
  3. The Plaintiff is entitled against the defendants Ross Parks, Lloyd Smith and Parrcom Atlantic Concepts Incorporated, on a joint and several basis, to general damages in the amount of \$70,500.
- (ii) Punitive damages are reduced and clause no. 4 of the order is revised to read:
  4. The Plaintiff is entitled against the defendants Ross Parks, Lloyd Smith and Parrcom Atlantic Concepts Incorporated, on a joint and several basis, to punitive damages in the amount of \$40,000.

[145] In all other respects the order stands.

Saunders, J.A.

**Reasons for Judgment:** Cromwell, J.A. (Oland, J.A. concurring, not agreeing to the reduction in the general damage award as proposed by Saunders, J.A. in [72] - [101] *supra.*)

[146] I have had the advantage of reading the reasons prepared by my colleague, Saunders, J.A. I agree with him, for the reasons which he gives, on all issues but one. Except in one minor respect, I would not disturb the judge's assessment of general damages. I will briefly set out my reasons for reaching this conclusion.

[147] It is often extremely difficult for a victim of copyright infringement or passing off to prove damages with precision. The law has long recognized this. So, for example, with respect to damages for copyright infringement, the following principle is stated in John S. McKeown, **Fox on Canadian Law of Copyright and Industrial Designs**, 4th ed., (Toronto: 2003 Thomson Canada Ltd.) at para. 24:15(b):

It is not appropriate that an infringer avoid liability merely because it is difficult or impossible to prove actual damages. In such a case, the tribunal must do the best it can, although it may be that the amount awarded will really be a matter of guesswork. In assessing damages the objective is a broadly equitable result. Mathematical exactitude is neither required nor attainable.

[148] The same principle has been recognized in assessing damages for passing off. The authors of **Remedies in Tort**, vol. 3, looseleaf (updated to 2006, Rel. 5) (Toronto: Carswell, 1987) at para. 61, state the principle this way:

A successful plaintiff may, at his option, take an inquiry as to damages or an account of profits. Where passing off is established, some damages must be awarded even if an actual monetary loss is not proven.

The defendant is liable for all loss actually sustained by the plaintiff that is the natural and direct consequence of the unlawful acts of the defendant, including any injury to the plaintiff's reputation, business, goodwill or trade. Difficulty in assessing damages does not relieve the court from the duty of assessing them as best it can.



[149] The decision of the English Court of Appeal in **Draper v. Trist and Others**, [1939] 3 All E.R. 513, is perhaps the leading authority on this subject. Often referred to are the words of Goddard, L.J. at p. 527:

... once one has established passing off, there is injury to goodwill, and this court or the jury must assess, by the best means they can, what is a fair and temperate sum to give to the plaintiff for that injury.

[150] Ms. Daum gave evidence, which Saunders, J.A. has referred to, stating her losses as she understood them. She testified that she had foregone collection of franchise fees in order to protect the franchise. She was not cross-examined on this evidence. As Saunders, J.A. has correctly pointed out, the trial judge made strong findings of credibility in favour of Ms. Daum. Mr. Thompson's evidence that he could have afforded to pay franchise fees does not negate the business judgment which Ms. Daum exercised in response to the defendant's wrongdoing. Having not attacked the plaintiff's evidence in this regard at trial, it is not fair for the appellants to attempt to undermine it on appeal.

[151] Moreover, the judge did not make any allowance for damages under other heads which he might have decided to compensate on the record before him. I refer specifically to the \$40,000 figure discussed by Saunders, J.A. and the judge's failure to award anything to Ms. Daum for her extensive efforts in investigating the wrongdoing which was perpetrated by the defendants.

[152] While the evidence of damage was admittedly extremely thin, the evidence on which the judge acted was virtually unchallenged at trial and was accepted as factual by him. Moreover, he moderated his award in an apparent effort to do precisely what the authorities required of him, namely, to achieve a broadly equitable result.

[153] For the reasons given by Saunders, J.A., I reject the appellant's attack on the judge's award of the \$12,000 as referred to in para. 34 of the trial judge's reasons. As for the \$10,000 referred to in the same paragraph, I agree with Saunders, J.A. that this figure should be reduced to \$6,000 for the reasons he gives.

[154] Except for that reduction, I would sustain the trial judge's award of general damages.

[155] In all other respects I agree with Saunders, J.A.

Cromwell, J.A.

Concurred in:

Oland, J.A.