

COURT OF APPEAL FOR ONTARIO

CARTHY, DOHERTY AND MOLDAVER J.J.A.

B E T W E E N:)	
)	
PRO-C LIMITED)	Chris G. Paliare
)	And Scott Jolliffe
)	And Kevin Sartorio
)	For the appellant
Plaintiff)	
Respondent/Appellant by Cross-Appeal)	
)	
- and -)	
)	
COMPUTER CITY, INC.)	J. W. McDonald
)	For the respondent
)	
Defendant)	
Appellant/Respondent by Cross-Appeal)	
)	
)	
)	Heard: June 20 and 21, 2001

On appeal from the judgment of Justice Alan C.R. Whitten dated June 30, 2000 (7 C.P.R. (4th) 193).

CARTHY J.A.:

[1] The plaintiff, Pro-C Limited ("Pro-C"), recovered a judgment at trial for \$450,000 in general damages and \$750,000 in punitive damages for infringement of a trade-mark by the defendant, Computer City, Inc. The plaintiff's trade-mark "Wingen", covering its software product, was adopted by the defendant in association with a non-competitive product (personal computers) sold in the United States. Pro-C used the trade-mark as the name of its website and when Computer City's American customers sought information

or service they mistakenly arrived at Pro-C's website. Pro-C alleged that their site was so overwhelmed that it could not service its own customers and its business was ruined.

[2] Computer City's position on appeal is that the *Trade-Marks Act*, R.S.C. 1985 c.T-13 (the "Act"), does not embrace the conduct complained of and that, in any event, no damages were proved. Pro-C cross-appeals for increased damages.

[3] Pro-C is a small Waterloo, Ontario, company operated from the home of its principal, selling source code generators for software to be used in the production of computer programs. Computer City is a large American corporation operating many retail stores across the United States and, at the relevant time, five stores in Canada.

[4] In 1994 Pro-C purchased the trade-mark WINGEN, registered in both Canada and the United States for "computer programs used to generate programs for Windows." The commercial purpose was to suggest an association with Microsoft's "Windows" software. Pro-C was not alone with that thought. In 1996, Computer City developed an in-house line of computers that it called Wingen. From the outset of production of these computers the appellant was aware of the registrations of the trade-mark Wingen owned by Pro-C. The computers were offered for sale in all the United States outlets but, due to costs in crossing the border, in none of the Canadian stores.

[5] This litigation springs from the use of Internet websites rather than competition between products. Pro-C had an interactive website "www.wingen.com" which it used to sell its software, transfer it to a purchaser and provide service. Computer City established a passive site "www.computercity.com", used to advertise and provide product information. Being a passive website, Computer City's site did not have interaction with customers -- it used the site only to post information. A phone number was included for receiving orders but no sales were made directly to Canada or in Canada.

[6] There is no directory for website names and a purchaser wishing information about a product would either guess the domain name or use keywords on a search engine. In this fashion many Computer City customers seeking information or service for their purchased computers mistakenly found their way to Pro-C's website. They saw the label Wingen on their units and sought out a site in that name rather than Computer City. Pro-C's evidence at trial was that over a period of some months it received over 100,000 hits (visits) per month by Computer City's customers. Because of the unwanted traffic to its website, Pro-C alleged that it could no longer service its clients or effectively sell its programs and that its business was destroyed. Its statement of claim is based solely on infringement of its trade-mark in Canada.

Liability

[7] The trial judge saw this as a case requiring him to expand the traditional protections of trade-mark law to accommodate the emerging technology and, in

particular, the Internet and websites with world wide reach. In extensive reasons, reported at 7 C.P.R. (4th) 193, he sets forth a step-by-step analysis of the Act and jurisprudence under it to reach a conclusion that the respondent had established a trade-mark infringement. He saw this as a problem to be resolved in contemporary terms, recognizing the international nature of trade and media communications. In his concluding words, “The determination of ‘use’ in Canada requires a holistic approach.”

[8] The appellant argues that the trial judge made six fundamental errors each of which undermines the traditional functions of the Act in its day-to-day application. In effect, the appellant says that the trial judge was misguided in his effort to embrace the Internet within the protections of the Act without regard to the carefully crafted requirements of that Act. I agree with the appellant, but it is unnecessary to deal with all six of the points of error. It is sufficient to conclude that there was no “use” of the trade-mark in Canada in association with wares to deny the respondent a claim under the Act.

[9] The first error of the trial judge was in using s. 19 of the Act as the foundation of his reasoning. That section reads:

19. **Rights conferred by registration** – Subject to sections 21, 32 and 67, the registration of a trade-mark in respect of any wares or services, unless shown to be invalid, gives to the owner of the trade-mark the exclusive right to the use throughout Canada of the trade-mark *in respect of those wares or services*. [Emphasis added.]

[10] This section clearly refers to the use in Canada of the trade-mark in association with the wares or services described in the trade-mark registration. The computer hardware being sold by the appellant was not sold in Canada and cannot be considered as “computer programs used to generate programs for Windows” (the description in the respondent’s trade-mark registrations). Thus, before even considering “use”, s.19 has no application to the facts of this case.

[11] If there was an infringement under the Act it would have to be under s.20 which reads:

20. (1) **Infringement** – The right of the owner of a registered trade-mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade-name, but no registration of a trade-mark prevents a person from making

- (a) any *bona fide* use of his personal name as a trade-name, or
- (b) any *bona fide* use, other than as a trade-mark,
 - (i) of the geographical name of his place of business, or
 - (ii) of any accurate description of the character or quality of his wares or services,

in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade-mark.

- (2) **Exception** – No registration of a trade-mark prevents a person from making any use of any of the indications mentioned in subsection 11.18(3) in association with a wine or any of the indications mentioned in subsection 11.18(4) in association with a spirit.

[12] Infringement under this section is dependent upon “use” of the registered mark. In normal parlance the word “use” is very broad and would include advertising on the Computer City website. Under the Act this is the case for services but, importantly, not for wares.

[13] The word “use” throughout the statute is governed by s. 4, reading:

4. (1) **When deemed to be used** – A trade-mark is deemed to be *used in association with wares if, at any time of the transfer of the property* in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred. [Emphasis added.]

(2) **Idem** – A trade-mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of those services.

(3) **Use by export** – A trade-mark that is marked in Canada on wares or on the packages in which they are contained is, when the wares are exported from Canada, deemed to be used in Canada in association with those wares.

[14] Computer City's passive website could not constitute a use in association with wares because no transfer of ownership was possible through that medium. In *Syntex Inc. v. Apotex Inc.* (1984), 1 C.P.R. (3d) 145 at 151 (F.C.A.) Stone J.A. speaks to a stronger case for infringement in these terms:

The respondents put their case that the flyer constitutes a “use” of [their trade-mark] in this way: ... (a) The flyer is not simply an advertisement; it is a binding “offer” made by the Appellant pursuant to which its customers are expected to purchase and effect delivery to them of the Appellant’s product. (b) The order form at the bottom of the flyer is the means by which the [Canadian] accepts the offer and, when completed and mailed, obtains the product. (c) The flyer is an integral part of the act or method of transferring both property and possession and constitutes notice of association referred to in s.4 of the *Trade-Marks Act*. ...

I have difficulty seeing how this argument could be sustained at trial ... In order to show that the appellant has made use of [the plaintiff/respondent’s trade-mark] ... the respondents will have to show that the trade-mark is so associated with the appellant’s wares in the flyer that notice of such association would be given to the person to whom the property in or possession of wares is transferred at the time of such transfer. ... which is the critical point in time ...
[Emphasis added.]

[15] Without further analysis of the trial judge’s reasons, or the other points of appeal, I am satisfied that there was no “use” in Canada by the appellant of the respondent’s trade-mark and that the action for infringement must fail.

[16] The format for relief for this type of loss may exist outside the Act in proper circumstances. It is incidental that the plaintiff has a registered trade-mark. No wares competed in the marketplace and the damage, if damage there be, would have been the same if the name of the website did not have trade-mark protection. If a party intentionally or negligently causes injury and the ingredients for establishing a tort can be proved, then the new technology of the Internet and websites can be readily

accommodated. It is much more sensible to apply tort principles to accommodate new technologies than to distort statutory trade-mark rights.

[17] Pro-C's argument was in part directed to Computer City's failure to produce documents and, in particular, those associated with its sales of computers. We are asked to infer from the failure to produce that there were sales in Canada of computers bearing the trade-mark Wingen, and thus that the arguments against "use" in Canada have been met. The trial judge did not draw that inference and I am not prepared to do so. Pro-C's counsel wrote a letter requesting documents early in the proceeding and was told that the defendant had no documents other than those produced. No steps were taken to compel production and the respondent did not even conduct an oral discovery of the appellant. The shares of Computer City (Canada) were sold to a conglomerate during these proceedings and it might be that the business records were transferred to the new owner. No effort to seek third party production was made.

[18] In these circumstances it does not seem appropriate to fill in the major holes in the respondent's proof of its claim by an inference against the appellant, particularly because there are no rulings, even at trial, indicating impropriety concerning production.

Damages

[19] Pro-C has cross-appealed for increased damages and, of course, that must be dismissed.

[20] If it were necessary to deal with damages I would unhesitatingly set aside the trial judge's awards of general and punitive damages.

[21] The trial judge's reasons open with the observation that the plaintiff's expert, Mr. Meijer, has no experience in the valuation of trade-marks, used financial statements prepared long after the relevant dates and was largely reliant for assumptions on Mr. Johnson, Pro-C's principal. He then concludes that the statements "could not provide any meaningful predictors for the evolution of an entirely new product" (trial reasons: at p. 209, ¶ 55).

[22] He then observes "it cannot be said that the plaintiff has actually proved a loss of revenue. ... The same comments can be made with respect to the calculation of a loss of revenues for a ... product launch." (p. 210, ¶¶ 58-59). Then, he finds no development costs were proved, no foreign language rewrite justified and that it would be "foolhardy" to attribute significance to correspondence concerning a potential sale of the business (p. 213, ¶ 73). Finally, under the heading "Conclusion", the trial judge states "The losses claimed are unsupported. They are, if anything, mystical calculations" (p. 214, ¶ 79).

[23] After that extensive analysis, each step of which involved findings of fact which I adopt, the trial judge surprisingly concluded that there was a business disruption and, without any reference to evidence, fixed the loss at \$450,000.

[24] In my view, the trial judge should have found that the plaintiff failed to meet the onus of proving damages. This was not a case where the difficulty of proof was such that the trial judge should make an unaided assessment. The facts concerning damages were all available and in the hands of the plaintiff. If they could not be moulded into anything but a mystical claim the conclusion must be that damages were not proved.

[25] As to punitive damages, it suffices to observe that, accepting the factual findings of the trial judge and, assuming liability, I would not consider the conduct of the defendant, appellant, to be so “malicious, oppressive and high-handed that it offends the court’s decency” and thus deserving of a punitive judgment award. See *Hill v. Church of Scientology of Toronto*, [1995] 2 S.C.R. 1130.

[26] I would allow the appeal, dismiss the cross-appeal, set aside the judgment below and dismiss the claim with costs. The appellant should have the costs of the appeal.

Released: September 11, 2001 “JJC”

“J.J. Carthy J.A.”

“I agree Doherty J.A.”

“I agree M. J. Moldaver J.A.”