

Federal Court



Cour fédérale

**Date: 20120203**

**Docket: T-1483-99**

**Citation: 2012 FC 38**

**Vancouver, British Columbia, February 3, 2012**

**PRESENT: Roger R. Lafrenière, Esquire  
Case Management Judge**

**BETWEEN:**

**DIRECT SOURCE SPECIAL  
PRODUCTS INC.**

**Plaintiff**

**and**

**SONY MUSIC CANADA INC. and  
SONY MUSIC ENTERTAINMENT  
(CANADA) INC.**

**Defendants**

**AND BETWEEN:**

**SONY MUSIC ENTERTAINMENT  
(CANADA) INC.**

**Plaintiff by Counterclaim**

**and**

**DIRECT SOURCE SPECIAL  
PRODUCTS INC.**

**Defendant by Counterclaim**

**REASONS FOR ORDER AND ORDER**

[1] The Plaintiff, Direct Source Special Products Inc. [Direct Source], seeks leave to amend the Amended Statement of Claim to claim damages caused by the infringement of its rights in

the Trade-Mark DANCE MIX through the creation and promotion by the Defendants, Sony Music Canada Inc. and Sony Music Entertainment (Canada) Inc. [hereinafter referred to as Sony], of MuchDance products between 1999 and 2010.

[2] Sony opposes the motion on the basis that the request contradicts Direct Source's representations made at a pre-trial conference. It also submits that the proposed amendments are barred by the doctrine of *res judicata*.

### **Issue to be Determined**

[3] The sole issue on this motion is whether Direct Source should be permitted to file its proposed Amended Amended Statement of Claim attached as Schedule A to the Notice of Motion, with such modifications as requested orally at the hearing of the motion.

[4] Direct Source seeks to add the following paragraphs:

- 4A. Direct Source says and the fact is that DANCE MIX is a famous trade mark because:
- (a) Quality Records spent over \$14 million on advertising to make DANCE MIX famous;
  - (b) virtually all music consumers between the ages of 10 to 25 know that DANCE MIX is a famous trade mark; they have grown up with it, they have partied to it, they have danced to it and it has formed an integral part of their lives;
  - (c) in its heyday, DANCE MIX was the most successful recorded music product in Canada both by number of units sold and total revenue;

- (d) DANCE MIX's business plan led to other music compilations that followed the same business pattern as spin-offs;
- (e) DANCE MIX sold 4.25 million units in total with net sales exceeding \$44.4 million dollars; and
- (f) the DANCE MIX trade mark appeared in all available media at the time, including radio, television, print media of all kinds, dance clubs, high school dances and live shows.

11A. Between August 13, 1997 and March 2010, Sony, as part of a joint-venture consisting of Sony, Poly Gram Group Canada (now Universal Music Canada), BMG Music Canada Inc. and CHUM Limited (the "Joint Venture") infringed on Direct Source's rights in the DANCE MIX trade mark and passed off its MuchDance Product as the famous DANCE MIX by doing things described in paragraphs 11B to 11F immediately following. The Plaintiff was not fully aware of the implementation of Sony's plan until February 21, 2008, when Sony's counsel delivered a sixth round of disclosing documents previously undisclosed.

11B. Between August 13, 1997 and December 23, 1997, the joint-venture rejected an offer by Quality to sell the DANCE MIX trade mark to Sony because it considered Quality vulnerable and did not want to pay the value of the DANCE MIX trade mark in the market place. Instead, it chose to create a new brand called MuchDance that it would use to infringe and thereby appropriate the goodwill of the DANCE MIX trademark. Although the Joint-Venture had already decided to appropriate the goodwill of the DANCE MIX trade mark, at a meeting on September 5, 1997, even though in a meeting that ended minutes before, Sony had determined the opposite. Sony misleadingly told Quality that it was still considering acquiring the DANCE MIX trade mark.

11C. By a letter-agreement dated October 1, 1997, solicitors for Quality and solicitors for CHUM Limited agreed that CHUM Limited was permitted to use the MuchDance title for music compilations, so long as no annual year numerals appeared on the same line as the name. Sony and the other non-CHUM members of the joint-venture were not parties to and were not referred to in that letter-agreement nor did Quality intend for them to benefit from any protection that may arise from the letter-agreement. Despite being aware of that letter-agreement between 1997 and 2010, the joint-venture published and sold tens of millions of compact MuchDance discs and cassettes labeled as follows:

- (a) MuchDance 1997
- (b) MuchDance 1999
- (c) MuchDance 2000
- (d) MuchDance 2001
- (e) MuchDance 2002
- (f) MuchDance 2003
- (g) MuchDance 2004
- (h) MuchDance 2005
- (i) MuchDance 2006
- (j) MuchDance 2007
- (k) MuchDance 2008
- (l) MuchDance 2009
- (m) MuchDance 2010

Furthermore, the labeling and packaging of the MuchDance compilations intentionally made them appear similar to the DANCE MIX compilations which they had displaced, using a comparable psychedelic-appearing distinguishing guise;

11D. In the responses to the court-ordered Inquiries delivered on November 16, 2007 and November 20, 2007 and Sony's letter dated February 21, 2008, enclosing seventeen documents not previously disclosed, Sony's will-says and documents disclosed that:

- (a) Members of the Joint-Venture knew that DANCE MIX was a successful brand, that it was well known to the public, that it had made millions of dollars for Quality, and that it was distinctive of and owned by Quality;
- (b) the Joint-Venture wanted to step into Quality's shoes, appropriate its goodwill, and supplant it by producing similar dance compilations;
- (c) the Joint-Venture resolved *sub rosa* that it would reject Quality's offer to sell the DANCE MIX trade mark and setup a new brand to overthrow DANCE MIX;
- (d) as part of the strategy just described in September 1997, a member of the Joint-Venture tried to persuade Zomba Recording Corporation from licensing to Quality a "Backstreet Boys" track, thus interfering with Quality's rights in the DANCE MIX trade mark and related business;

- (e) the Joint-Venture set itself a goal of wiping out any confusion between DANCE MIX and MuchDance in order to make everyone aware that MuchDance was what they wanted. To achieve this goal it misrepresented MuchDance to consumers by causing to believe that MuchDance was essentially a continuation or a new version of DANCE MIX;
- (f) in 1997, the Joint-Venture spent \$200,000.00 in a thirteen week campaign to promote MuchDance in order to infringe DANCE MIX and thereby appropriate the goodwill of the DANCE MIX trade mark. The Joint-Venture intentionally attempted to confuse the public into believing that the MuchDance compilations were a continuation of the famous DANCE MIX products.

11E. Through the Joint-Venture, Sony has profited from the sale of all the MuchDance albums, whose success was based on the goodwill of the DANCE MIX trade mark, which the joint-venture was based on the goodwill of the DANCE MIX trade mark, which the joint-venture appropriated. As such, Sony is liable to Direct Source to disgorge those profits.

### Overview

[5] This case has involved lengthy and protracted proceedings between the parties over the past decade. This Court has expended considerable time and resources in case management of the proceeding, dealing with a myriad of disputes and adjudicating numerous motions relating to pleadings and discoveries, with the ultimate goal of moving the case closer to a final hearing. Despite having conducted two pre-trial conferences, and having received repeated assurances from Direct Source that the pleadings were closed and that discoveries were complete, the Court is being called upon once again to revisit matters previously addressed and believed to be finally resolved.

[6] In order to appreciate the difficulties created by Direct Source's motion at this late stage of the proceeding, an extensive review of the facts is necessary.

### **Nature of the Proceeding**

[7] Direct Source initiated this action against Sony for trade mark infringement under the *Trade-marks Act* in 1999. Direct Source alleges that it owns a trade mark in the words "Dance Mix" and that Sony infringed this trade mark by selling compact discs containing recorded music in the mid-1990s in association with the words, "Sony Dance Mix", "Non-Stop Dance Mix (House)", "Millennium Dance Mix", "Non-Stop Dance Mix (NRG)", and "Sony Music Dance Mix (Morlee)."

[8] Sony defended the action on various bases, including that Direct Source does not own valid trademark rights in the phrase "Dance Mix", the mark is a generic phrase, and that, in any event, Sony's product did not infringe such rights. Sony further denies that its impugned actions have caused any damage to Direct Source. By way of counterclaim, Sony seeks a declaration that the Direct Source's trade-mark is invalid and should be expunged.

### **Procedural History**

[9] Following a status review conducted in January 2001, the action was allowed to continue as a specially managed proceeding. The late Associate Senior Prothonotary Peter A.K. Giles [ASP Giles] ordered that discoveries be completed by April 1, 2001 and that any motion for re-attendance be set down by April 15, 2001. On consent of the parties, the deadlines were extended by three months.

[10] In the absence of any requisition for pre-trial conference being filed in a timely manner, ASP Giles issued an Order on November 20, 2001 requiring the parties to show cause why the proceedings should not be dismissed for delay. Counsel for Direct Source responded that the parties had been working valiantly to settle the dispute and requested an additional ninety days to determine whether they could agree on settlement terms. By Order dated December 13, 2001, ASP Giles directed the parties to provide a status report of their settlement negotiations by April 3, 2002, and if the matter was not settled, a proposed timetable for completion of steps in the proceeding.

[11] On March 6, 2002, Associate Chief Justice Allan Lutfy (as he then was) designated me to assist in the management of the matter in the place of ASP Giles.

[12] On April 3, 2002, counsel for Direct Source submitted a joint litigation schedule of procedural steps, setting out revised dates for completion of examinations for discovery and a deadline of September 20, 2002 for requisitioning a pre-trial conference. An Order was issued on April 23, 2002 requiring the parties to comply with the deadlines set out in their consent timetable.

[13] A requisition for pre-trial conference was not filed within the Court-ordered deadline. Consequently, Direct Source was directed by Order dated October 22, 2002 to bring a motion in writing for an extension of time of the deadlines by November 12, 2002.

[14] Rather than bring a motion within the time provided in the Order dated October 22, 2002, counsel for Direct Source submitted a letter on January 6, 2003 stating that, although the parties were continuing valiant attempts to settle the action, Direct Source no longer had any confidence that settlement would be reached. He indicated that Direct Source wished to bring a motion to reconstitute the litigation timetable to be heard the following month. Since the parties had already failed to comply with two Orders, a third Order was issued requiring them to show cause by January 17, 2003 why the action and the counterclaim should not be dismissed for delay and non-compliance with Orders of this Court.

[15] Following a further status review, the parties were ordered to complete the first round of examinations for discovery by April 30, 2003, on a peremptory basis. Direct Source was also directed to submit a joint schedule for completion of the next steps no later than May 6, 2003.

[16] On April 30, 2003, Sony filed a motion for an order dismissing the action, or in the alternative, an order declaring that Direct Source's examination of Sony's representative conducted on April 24, 2003 completed the first round of discovery. Direct Source filed a motion on the same day seeking an order that Sony's discovery representative be replaced by an informed person, and requiring Sony to answer questions to which objections were raised. On May 2, 2003, Direct Source brought a second motion for an order striking the Statement of Defence and Counterclaim on the grounds that Sony refused to answer proper questions at the examination for discovery on April 24, 2003.



[17] An Order was issued on June 9, 2003 disposing of the parties' motions. Sony was required to answer two questions that had been refused at the examination for discovery of its representative on April 24, 2003. A declaration was also issued that the discovery examination conducted by Direct Source completed the first round of discovery of Sony and that any further attendance by Sony's representative would be limited to outstanding undertakings and the questions ordered to be answered. Direct Source's motion concerning other refusals and the parties' motions to strike each other's pleadings were otherwise dismissed. An appeal of the Order dated June 9, 2003 by Direct Source was dismissed by Madam Justice Elizabeth Heneghan on October 21, 2003.

[18] After more procedural skirmishes between the parties, discoveries were finally completed in September 2004. On December 14, 2004, Direct Source filed a Requisition for Pre-Trial Conference certifying that all examinations which Direct Source intended to conduct were complete. In its pre-trial conference memorandum, Direct Source indicated that it wished to amend paragraph 1(c) of the Statement of Claim to increase its claim for general damages from \$500,000.00 to \$5,000,000.00. Direct Source also stated that it would not proceed with any more refusal motions and would instead argue the consequences of Sony's refusals at trial.

[19] The pre-trial conference was scheduled to be held in person at the Federal Court in Toronto on January 20, 2005. Counsel for Direct Source confirmed to the Registry on January 5, 2005 that he would be attending the pre-trial conference along with Direct Source's President.

[20] At some point prior to the pre-trial conference, Sony located and produced to Direct Source a group of documents from 1997 relating to the decision by Chum Limited [Chum] to terminate its relationship with Quality Records [Quality], the predecessor-in-title to Direct Source's "Dance Mix" trade mark, and to Quality's attempts to enter into agreements with Sony and others [2005 Productions].

[21] Direct Source's representative failed to attend the pre-trial conference on January 20, 2005. When pressed by the Court for an explanation as to why no representative was in attendance, counsel for Direct Source insisted that the President's presence was not required, that he had the trust of his client, and that he had a full mandate and authority to represent his client at the pre-trial conference. When asked to explain what prevented the President or another representative from attending, counsel for Direct Source simply stated that his client had more pressing business exigencies. The Court concluded that the pre-trial conference would have to be adjourned for the following reasons:

Rule 260 of the *Federal Courts Rules* requires that persons with authority to settle a case attend at the pre-trial conference. The purpose of this rule is to allow the Court to canvass with the parties the costs and risks of litigation, as well as to enter into meaningful discussion of settlement. The physical presence of a representative is, in my experience, more conducive to productive discussions and negotiations. The absence of a representative of the Plaintiff has, in my view, frustrated the Court's ability to conduct an effective pre-trial conference. The matter must therefore be adjourned to another date.

[22] Counsel for Direct Source added that the pre-trial conference could not proceed in any event since the action was no longer ready for trial due to recent developments. He stated that

Sony had produced additional documents “going to the core of the action” on the eve of the pre-trial conference, and that further discovery would be required. The Court rejected this argument as a basis for adjourning the pre-trial, holding that any further discovery on the recently produced documents could have been conducted expeditiously and ought not to delay the fixing of a trial date.

[23] Direct Source was sanctioned for its misconduct by an order of costs against it and the pre-trial conference was adjourned to arrange for the attendance of Direct Source’s representative at a later date. Direct Source was granted leave to serve and file a motion relating to the additional documents produced by Sony in the interim.

[24] On February 3, 2005, counsel for Direct Source sent a letter to CHUM describing generally the nature of the litigation between his client and Sony. He proceeded to make allegations that CHUM owed his client a fiduciary duty and had conspired with Sony to deliberately appropriate the goodwill associated with the trade-mark. Counsel for Direct Source wrote that he was making these allegations on the basis of additional documents that were produced by Sony on January 19, 2005. He gave notice that his client was prepared to join CHUM to this action or commence a separate action against CHUM, but, to the extent that he might have suggestions for a more productive solution, counsel invited CHUM to call him.

[25] On February 23, 2005, Sony initiated contempt proceedings against Direct Source and its solicitor alleging that: (a) they violated the implied undertakings given by them that documents produced by Sony and information therein would only be used for the purposes of

this action; (b) they caused documents and information produced by Sony to be disclosed to CHUM, a non-party to the action; and (c) they relied on the documents and information therein for the purpose of threatening litigation against CHUM.

[26] On March 11, 2005, Direct Source in turn brought a motion alleging misconduct on the part of Sony and its counsel in producing the 2005 Productions. Direct Source began asserting that the documents revealed a conspiracy between Sony, Chum and others as well as evidencing other tortious activities. At paragraph 8 of his affidavit sworn on April 13, 2005, counsel for Direct Source states:

8. On the eve of pretrial, on January 19, 2005 and after years of my complaining about inadequate disclosure and incomplete affidavits of documents, Sony disclosed more productions (“Late Productions”). Until then, I thought this action was at its core, simply about trade mark infringement. The Late Productions show that Sony, Chum and their co-venturers (as described later in my Affidavit) are liable for conspiracy to appropriate the good will of the Trade Mark, and I did not know that until I was given the Late Productions.

[27] In May 2005, Sony advised Direct Source that Sony intended to amend its Statement of Defence and Counterclaim. In light of Direct Source’s ongoing accusations of conspiracy and other tortious conduct, Sony invited Direct Source to provide any contemplated amendments to its Statement of Claim so that Sony’s proposed Amended Statement of Defence and Counterclaim could be comprehensive and respond to all of the allegations in the case. Direct Source rejected Sony’s proposal.

[28] On August 25, 2005, a case management conference was convened to schedule certain matters, including Sony's motion to amend its Statement of Defence and Counterclaim. In the course of the conference, counsel for Direct Source advised the Court that it did not intend to amend its Statement of Claim. This position was later recorded in the Order of the Court dated September 22, 2005 disposing of Direct Source's motion filed on March 11, 2005. The Order also required Sony to make inquiries of a number of individuals and entities, provide the results of these inquiries to Direct Source prior to the then-contemplated further examination for discovery of Sony, and produce a representative for further examination for discovery.

[29] On October 5, 2005, Madam Prothonotary Martha Milczynski concluded that there was a *prima facie* case that there had been a breach of the implied undertaking rule relating to the use of documents and information obtained on discovery. She ordered that a representative of Direct Source and its solicitor appear before this Court to hear proof of the acts with which they are charged and to urge any grounds of defence that they may have.

[30] Sony advised the Court on October 18, 2005 that Sony had conducted the inquiries as required by the Order dated August 25, 2005. Sony repeatedly sought confirmation that Direct Source would treat the answers to the inquiries as if they had been delivered at discovery and thus covered by the implied undertaking; however, Direct Source refused to confirm this. Accordingly, Sony declined to disclose the results of its inquiries pending confirmation that the answers would be subject to the implied undertaking.

[31] On November 18, 2005, Direct Source served an Amended Reply that included, among other amendments, various allegations relating in tort tied to the 2005 Productions. Sony brought a motion to strike these portions of Direct Source's Amended Reply. Before Sony's motion could be heard, Sony was granted leave to amend its Statement of Defence and Counterclaim and the contempt proceedings were later discontinued. Sony's motion to strike was ultimately granted on July 28, 2006.

[32] In January 2007, Direct Source brought a motion to amend the Statement of Claim to introduce allegations similar to those that had been struck from the Amended Reply. By Order dated March 16, 2007, the motion was dismissed with the following endorsement:

On August 25, 2005, counsel for the Plaintiff advised the Court that the Plaintiff did not intend to amend its Statement of Claim, notwithstanding that: (a) the Plaintiff was in possession of the Defendants' January 2005 Productions since January 2005; (b) Plaintiff's counsel began accusing the Defendants of participating in a conspiracy to harm the Plaintiff in February 2005; (c) the Defendants had invited the Plaintiff to seek leave to amend its pleading in May 2005 before the Defendants sought leave to amend their own pleading, and (d) the Plaintiff was served with the Defendants' motion to amend its Statement of Defence and Counterclaim.

Although I would not characterize the statement by Plaintiff's counsel on August 25, 2005 as an undertaking, it remains that the Plaintiff made a deliberate decision not to seek an amendment to its pleading. It is simply unacceptable for a party to say one thing to the Court, and then do the opposite, without providing a reasonable explanation for its change of heart. From a case management point of view, such tactics make it difficult, if not impossible, to ensure an orderly progression of the action, and must be discouraged. Moreover, the Plaintiff's delay in bringing this motion has prejudiced the Defendants, who have amended their pleading based on the Plaintiff's assurances. In the circumstances, I conclude that the Plaintiff should be held to its election not to amend its pleading.

In any event, the contentious paragraphs for which leave is being sought either do not raise a reasonable cause of action or are beyond this Court's jurisdiction. With respect to the allegation that Dance Mix is a "famous" trademark, the Plaintiff has provided no material facts in support of the claim. The bald allegation simply does not disclose a cause of action. The allegations of fraudulent misrepresentation and conspiracy are also deficient in that the necessary elements of the two torts have not been pleaded.

[33] On July 3, 2007, Direct Source filed a requisition to continue the pre-trial conference that was adjourned in 2005. In its pre-trial conference memorandum, Direct Source indicates that it is waiving further discovery. There is no mention of any further proposed amendments.

[34] On October 15, 2007, the Court ordered that Sony's answers would be subject to the implied undertaking. With the protection of a Court Order, Sony provided the results of its inquiries to Direct Source on November 16, 2007.

[35] On February 21, 2008, counsel for Sony located a file of further documents that had been obtained from Sony in 2005 but apparently misfiled in his office. This group of documents comprises duplicates of certain of the 2005 Productions and 17 additional documents of a similar nature. Sony produced these documents on the same day they were discovered.

[36] On March 6, 2008, Direct Source filed a supplementary pre-trial conference memorandum to address the answers to inquiries Sony delivered in November 2007 and the documents delivered in February 2008 [Later Productions]. Direct Source states that the 2007 answers to inquiries and the February 2008 disclosures reveal "a basis to advance new causes of action ... for the torts of interference with contractual relations and economic interests, deceit and

breach of fiduciary duty” and that it was “prepared to proceed with such new causes of action in the Ontario Superior Court of Justice”. The supplementary pre-trial memorandum also included a section entitled “Final Pre-trial motions and outstanding matters”. In this section, Direct Source indicates that it was waiving further discovery. There is no assertion of any intention to bring any motion on the pleadings.

[37] The pre-trial conference was reconvened on April 1, 2008. At the conclusion of the pre-trial conference, a series of directions were issued regarding the final steps to be conducted in this proceeding. To avoid any misunderstanding, the parties were asked to prepare minutes of these directions.

[38] The starting point for the pre-trial directions was that the pleadings as filed would define the issues for the trial. It was understood that Direct Source’s grievances regarding the proposed amendments to the Statement of Claim, including the grievances arising from the answers to inquiries and February 2008 might be pursued in a separate action in the Ontario Court, but would not be part of the present proceeding. With the pleadings thus settled, the Court directed the remaining steps in this proceeding.

[39] On November 21, 2008, Direct Source filed a Notice of Intention to Make a Proposal in accordance with subsection 50.4(1) the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3 (BIA), effectively staying the proceedings.



[40] On February 17, 2009, having taken none of the steps directed by the Court over the previous 10 months, Direct Source wrote to the Court to request that the timetable in the proceeding be reset “with a view to trial and any final interlocutory motions which the parties indicated in April 2008 may be forthcoming should there be no settlement.” By letter dated February 25, 2009, Direct Source again wrote the Court in respect of the pre-trial minutes and the resetting of the timetable. Neither letter refers to any intention to amend the pleading.

[41] On May 1, 2009, Direct Source filed a proposal to its creditors. The Superior Court of Quebec (Commercial Division, in bankruptcy and insolvency) ratified the proposal on June 11, 2009 and discharged Direct Source from bankruptcy.

[42] On April 13, 2010, Direct Source brought the present motion and insisted that it be scheduled prior to Direct Source having completed any of the steps directed at the pre-trial conference. By Order dated April 22, 2010, Direct Source was directed to comply with the pre-trial directions prior to being permitted to schedule the present motion. In the course of making this Order, the Court noted as follows:

The fact that the Plaintiff has retained new counsel does not and cannot serve to excuse the Plaintiff from its obligation to comply with the undertakings and deadlines fixed by the Court. The Court itself has an interest in seeing that its orders, as well as undertakings by counsel, are not flouted. Counsel for the Plaintiff was in possession of the Defendants additional production for at least one month before he agreed to take certain steps within the time provided, or request an extension of time on a timely basis. The Plaintiff has acted in a manner that is not simply inadvertent or negligent. In my view it would be neither just nor appropriate to dispense the Plaintiff from complying with its obligations solely on the basis that Plaintiff’s counsel changed his mind.

**Analysis**

[43] Direct Source submits that leave should be granted to further amend its Amended Statement of Claim as a result of disclosures made by Sony on November 16, 2007, November 20, 2007 and February 21, 2008. Direct Source acknowledges that the proposed amendments are similar to some of the proposed amendments disallowed by the Order dated March 16, 2007. It points out, however, that the amendments were disallowed prior to delivery of the Later Productions and that the factual basis of this motion is different from that on which the previous order was decided.

[44] I am mindful that the general rule is that an amendment should be allowed at any stage of an action for the purpose of determining the real questions in controversy between the parties: *The Queen v Canderel Limited* 1993 CanLII 2990 (FCA). However, an amendment may be refused if it would result in an injustice to the other party not capable of being compensated by an award of costs or would not serve the interests of justice.

[45] Each case needs to be examined carefully to determine whether any real prejudice occurs. While I do not assign blame to Sony for the late production of documents in 2005, 2007 and 2008, and in fact, observe that counsel for Sony acted honourably and in the best tradition of the bar in producing documents immediately upon being discovered, nevertheless Sony is partly responsible for some of the setbacks in this proceeding. The late productions also gave ammunition to Direct Source to return to the Court for relief.

[46] Notwithstanding, I agree with Sony that this request for leave to amend should be denied because it contradicts Direct Source's pre-trial memorandum and its unambiguous statement at the pre-trial conference held in April 2008 that its grievances with respect to these "new" disclosures would be pursued in proceedings in the Ontario Court, and not in the current proceedings. Direct Source took the position that discoveries were complete and that the matter was ready for trial. The Court then directed that the trial would proceed on the basis of the issues as framed in the existing pleadings and scheduled the remaining steps leading to trial.

[47] Direct Source now seeks to amend the Amended Statement of Claim to add new issues to this proceeding on the basis of disclosures that were in its possession and discussed at the pre-trial conference. This is not the first time that Direct Source has resiled from a position communicated formally to the Court. In August 2005, eight months after receiving the 2005 Productions, counsel for Direct Source advised the Court during the course of a case management conference that it did not intend to amend its Statement of Claim. Direct Source did not wish the fixing of a trial date to be delayed as a result of additional discovery that would have been required by an amendment to the Statement of Claim due to the 2005 Productions. Notwithstanding its clear election, Direct Source proceeded to file an Amended Reply advancing substantial allegations based on the 2005 Productions a few months later.

[48] In my view, this most recent attempt by Direct Source to resile from its position undermines the pre-trial conference process and works a serious prejudice to Sony.

[49] Direct Source does not provide a valid explanation for the reversal of position, or any new facts or exceptional circumstances that would warrant a reconsideration of amendments already refused. Its recent financial difficulties may account for some of the delay in bringing the present motion. However, Direct Source's motion material simply ignores the informed position it took at the pre-trial conference and the Court's consequent directions. Direct Source's approach in this regard is illegitimate.

[50] In *Apotex Inc v Bristol-Myers Squibb Company et al* 2011 FCA 34 at para 28 et seq, the Federal Court of Appeal concluded that a party should be held to the statements it makes at the pre-trial conference. In the words of Mr. Justice David Stratas, at para. 28:

This exchange of pre-trial memoranda matters. Although the parties should be clear and candid at all times during the litigation about what issues are in real dispute, they certainly must come clean and be perfectly clear at the time of the pre-trial conference. In their pre-trial memoranda, there has to be full and frank discussion about all live, real issues so that "the Court [can] canvass ... whether the issues to be determined at trial ... have been properly considered and identified": *Wenzel Downhole Tools Ltd. v. National-Oilwell Canada Ltd.*, [2010 FC 669 \(CanLII\)](#), 2010 FC 669 at paragraph 19 (Proth.). This prevents surprise or ambush at trial. This also prevents the Court from wasting its scarce resources by scheduling matters for trial when they are not ready. Due to the seriousness of the representations made in the pre-trial memorandum and the importance of the objectives of a pre-trial conference, parties can later be held to what they say or do not say at the pre-trial conference: *Wenzel*, at paragraph 20. In the pre-trial memorandum and in the discussions at the pre-trial conference, there is no place for strategic non-disclosure or purposeful non-clarification. If an issue is not placed squarely on the table, all are entitled to assume that it is not on the table.

[51] Even if the Court were to ignore what occurred at the pre-trial conference, which it is not prepared to do, the motion for leave to amend would have been denied in any event on the grounds it is barred by the doctrine of *res judicata*. The amendments that Direct Source now seeks are similar both to those struck out of its Amended Reply in 2006 and to those disallowed as amendments to the Statement of Claim in 2007.

[52] Direct Source asserts that it now has a reasonable explanation for seeking this amendment, a second time, namely, that it has a stronger evidentiary basis to establish the veracity of the proposed amendments. However, as is the case on any pleadings motion, the proposed amendments were presumed to be true when the proposed amendments were previously considered and rejected by the Court in 2006 and 2007. Thus, even if the present motion seeking to add these allegations for a third time were to rest on evidence that more clearly established the causes of action underlying the proposed amendments, this could not distinguish the present motion from the previous rulings of this Court.

[53] Moreover, the Court disallowed the proposed amendments in 2007 because the Court considered it appropriate in all of the circumstances to hold Direct Source to its deliberate, tactical decision to advise the Court in 2005 that it would not seek to further amend its pleadings, not because the evidence of the facts proposed as amendments in 2007 was insufficient. The Court then also noted that “in any event” the amendments sought were beyond the jurisdiction of the Court and improperly pleaded. Each of these circumstances continues to apply to the present iteration of this motion.

[54] Finally, I conclude that introducing the proposed amendments at this late stage would not serve the interests of justice as it would unduly delay the disposition of the proceedings. Pleadings and discovery would have to be re-opened, thereby occasioning extensive future delays. Direct Source's past history of failing to adhere to court orders and directions made in the course of this litigation, if not ignoring them completely, is quite troubling and certainly does not inspire confidence. So is its pattern of saying one thing, and doing another.

[55] Sony and this Court have relied upon the repeated assurances of Direct Source that it would not further amend its pleadings. I am simply left to repeat the same comments I made in dismissing Direct Source's earlier motion to amend its Statement of Claim.

It is simply unacceptable for a party to say one thing to the Court, and then do the opposite, without providing a reasonable explanation for its change of heart. From a case management point of view, such tactics make it difficult, if not impossible, to ensure an orderly progression of the action, and must be discouraged. Moreover, the Plaintiff's delay in bringing this motion has prejudiced the Defendants, who have amended their pleading based on the Plaintiff's assurances. In the circumstances, I conclude that the Plaintiff should be held to its election not to amend its pleading.

[56] Being substantially in agreement with Sony's written representations, which I adopt and make mine, I conclude that the present motion ought to be dismissed.

**Costs**

[57] Sony seeks costs on an elevated scale in light of Direct Source's failure to abide by the pre-trial directions, to discourage it from further using the Court's process to bring repetitive motions for the same relief, and to fully compensate Sony for the expense of responding yet again to a motion to amend without any merit.

[58] In my view, the motion by Direct Source was nothing more than a further attempt to re-litigate a matter already decided against it and constitutes an abuse of process. Cost rules are designed to indemnify the successful party, and to discourage and sanction inappropriate behaviour by litigants. For the above reasons, I conclude that costs of the motion should be granted in favour of Sony, to be assessed on an elevated scale.

**ORDER**

**THIS COURT ORDERS that:**

1. The motion is dismissed.
2. Costs of the motion shall be paid by the Plaintiff to the Defendants in any event of the cause, to be assessed based on the middle of Column V of Tariff B of the *Federal Courts Rules*.

“Roger R. Lafrenière”  
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Case Management Judge



**FEDERAL COURT**  
**SOLICITORS OF RECORD**

**DOCKET:** T-1483-99

**STYLE OF CAUSE:** DIRECT SOURCE SPECIAL PRODUCTS INC.  
v. SONY MUSIC CANADA INC. ET AL

**PLACE OF HEARING:** TORONTO, ONTARIO

**DATE OF HEARING:** JULY 14, 2011

**REASONS FOR ORDER:** LAFRENIÈRE P.

**DATED:** FEBRUARY 3, 2012

**APPEARANCES:**

IAN BLUE  
ARNOLD SCHWISBERG

FOR THE PLAINTIFF  
DEFENDANT BY COUNTERCLAIM

DAVID E. LEDERMEN

FOR THE DEFENDANTS  
PLAINTIFF BY COUNTERCLAIM

**SOLICITORS OF RECORD:**

GARDINER ROBERTS LLP  
TORONTO, ONTARIO

FOR THE PLAINTIFF  
DEFENDANT BY COUNTERCLAIM

ARNOLD SCHWISBERG  
MARKHAM, ONTARIO

GOODMANS LLP  
TORONTO, ONTARIO

FOR THE DEFENDANT  
PLAINTIFF BY COUNTERCLAIM