

**Date: 20071123**

**Docket: T-1502-00**

**Citation: 2007 FC 1235**

[ENGLISH TRANSLATION]

**Montréal, Quebec, November 23, 2007**

**PRESENT: Richard Morneau, Esq., Prothonotary**

**BETWEEN:**

**MICROSOFT CORPORATION**

**Plaintiff**

**and**

**9038-3746 QUEBEC INC.**

**and**

**9014-5731 QUEBEC INC.**

**and**

**ADAM CERRELLI**

**and**

**CARMELO CERRELLI**

**Defendants**

**REASONS FOR ORDER AND ORDER**

[1] The reasons for order and this order are pursuant to the objection raised at the hearing on November 19, 2007, by counsel for the defendant Carmelo Cerrelli and a corporation, VSOP WEB

INC. (the defendants) against the contents of three counts in a motion by the plaintiff (Microsoft) under rules 466 *et seq.* of the *Federal Courts Rules* (the Rules) to have the defendants appear before a judge of this Court to respond to the counts of contempt of court.

### **Essential context**

[2] Although the parties present seem to have had problems for some time with the rights held by Microsoft to certain computer programs and the related trade-marks, we can simply note here that, on December 18, 2006, Harrington J. of this Court issued a judgment following the trial in this case (the Judgment) in which the Court ordered the various defendants listed in the style of cause to pay statutory and punitive damages and eventually costs, totalling more than two (2) million dollars.

[3] The Judgment also contained two key paragraphs in this case, paragraphs 12 and 13, which set out two injunctive conclusions that it is appropriate to reproduce here:

12. **PERMANENTLY ENJOINS AND RESTRAINS** the defendants 9038-3746 Quebec Inc., 9014-5731 Quebec Inc., Carmelo Cerrelli and Adam Cerrelli from directly, or indirectly, as well as the officers and directors of 9038-3746 Quebec Inc. and 9014-5731 Quebec Inc., and the servants, employees or agents of any of them and any other person, corporation or entity acting under their instructions or control, from making, selling, distributing, advertising, exposing for sale, offering for sale, or possessing for the purposes of the foregoing, or importing into Canada, counterfeit copies of the twenty-five computer programs and related materials identified herein [identified in paragraph 2 of the Judgment], and from ordering, abetting, authorizing or assisting others to do any of the foregoing;

13. **PERMANENTLY ENJOINS AND RESTRAINS** the defendants 9038-3746 Quebec Inc., 9014-5731 Quebec Inc., Carmelo Cerrelli and Adam Cerrelli from directly, or indirectly, as well as the officers and directors of 9038-3746 Quebec Inc. and 9014-5731 Quebec Inc., and the servants, employees or agents of any of them and any other person, corporation or entity acting under their instructions or control, from infringing in any matter whatsoever the ten Microsoft trade-marks identified herein [identified in paragraph 5 of the Judgment], passing off any wares or services, including CD-ROMs or other media containing copies of any Microsoft program, or related material, as and for those of Microsoft, using any of the said Microsoft trade-marks in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto, or using any of the said Microsoft trade-marks to direct public attention to wares, including CD-ROMs or other media containing copies of Microsoft programs, or related components or importing into Canada in such a way as to cause, or be likely to cause, confusion in Canada between such wares and the wares of Microsoft, and from ordering, abetting, authorizing or assisting others to do any of the foregoing.

[4] In summary, for better understanding, those paragraphs 12 and 13 have the following general scope, as established in paragraph 1 of the written submissions by Microsoft:

1. At paragraphs 12 and 13 of the Judgement and Permanent Injunction, dated December 18, 2006 (hereinafter referred to as the « Judgement »), Mr. Justice Harrington issued two permanent injunctions, restraining the Defendants from directly or indirectly;
  - (a) dealing in counterfeit copies of the twenty-five (25) Microsoft software programs identified at paragraph 2 of the Judgement (paragraph 12);

- (b) infringing in any way the ten (10) registered Microsoft trade-marks identified at paragraph 5 of the Judgment, and from passing off any wares, including CD-ROMs containing copies of any Microsoft software program, or related material, as and for those of Microsoft (paragraph 13).

[5] Microsoft now considers that it has certain and sufficient proof for this Court to conclude that, in the time between the Judgment and the current date, the defendants acted against the letter and spirit of paragraphs 12 and 13 of the Judgment or showed conduct that leads Microsoft to file three counts of contempt of court against the defendants, collectively or individually, under Rules 466(b) and (c).

[6] Rules 466 and 467 read as follows:

**466.** Contempt - Subject to rule 467, a person is guilty of contempt of Court who

(a) at a hearing fails to maintain a respectful attitude, remain silent or refrain from showing approval or disapproval of the proceeding;

(b) disobeys a process or order of the Court;

(c) acts in such a way as to interfere with the orderly administration of justice, or to impair the authority or

**466.** Outrage - Sous réserve de la règle 467, est coupable d'outrage au tribunal quiconque :

a) étant présent à une audience de la Cour, ne se comporte pas avec respect, ne garde pas le silence ou manifeste son approbation ou sa désapprobation du déroulement de l'instance;

b) désobéit à un moyen de contrainte ou à une ordonnance de la Cour;

c) agit de façon à entraver la bonne administration de la justice ou à porter

dignity of the Court;

atteinte à l'autorité ou à la dignité de la Cour;

(d) is an officer of the Court and fails to perform his or her duty; or

d) étant un fonctionnaire de la Cour, n'accomplit pas ses fonctions;

(e) is a sheriff or bailiff and does not execute a writ forthwith or does not make a return thereof or, in executing it, infringes a rule the contravention of which renders the sheriff or bailiff liable to a penalty.

e) étant un shérif ou un huissier, n'exécute pas immédiatement un bref ou ne dresse pas le procès-verbal d'exécution, ou enfreint une règle dont la violation le rend passible d'une peine.

**467.** (1) Right to a hearing - Subject to rule 468, before a person may be found in contempt of Court, the person alleged to be in contempt shall be served with an order, made on the motion of a person who has an interest in the proceeding or at the Court's own initiative, requiring the person alleged to be in contempt

**467.** (1) Droit à une audience - Sous réserve de la règle 468, avant qu'une personne puisse être reconnue coupable d'outrage au tribunal, une ordonnance, rendue sur requête d'une personne ayant un intérêt dans l'instance ou sur l'initiative de la Cour, doit lui être signifiée. Cette ordonnance lui enjoint :

(a) to appear before a judge at a time and place stipulated in the order;

a) de comparaître devant un juge aux date, heure et lieu précisés;

(b) to be prepared to hear proof of the act with which the person is charged, which shall be described in the order with sufficient particularity to enable the person to know the nature of the case against the person; and

b) d'être prête à entendre la preuve de l'acte qui lui est reproché, dont une description suffisamment détaillée est donnée pour lui permettre de connaître la nature des accusations portées contre elle;

(c) to be prepared to present any defence that the person may have.

c) d'être prête à présenter une défense.

(2) *Ex parte* motion - A motion for an order under subsection (1) may be made *ex*

(2) Requête *ex parte* - Une requête peut être présentée *ex parte* pour obtenir

*parte.*

l'ordonnance visée au paragraphe (1).

(3) Burden of proof - An order may be made under subsection (1) if the Court is satisfied that there is a *prima facie* case that contempt has been committed.

(3) Fardeau de preuve - La Cour peut rendre l'ordonnance visée au paragraphe (1) si elle est d'avis qu'il existe une preuve *prima facie* de l'outrage reproché.

(4) Service of contempt order - An order under subsection (1) shall be personally served, together with any supporting documents, unless otherwise ordered by the Court.

(4) Signification de l'ordonnance - Sauf ordonnance contraire de la Cour, l'ordonnance visée au paragraphe (1) et les documents à l'appui sont signifiés à personne.

[7] As provided in Rule 467(2), Microsoft initially filed its motion on an *ex parte* basis to have a first-stage order issued under subsection 467(1) (the first Microsoft motion).

[8] In late October 2007, when other orders were issued in this case against the defendants, including an Anton Piller injunction and a Mareva injunction, Harrington J. required that the first Microsoft motion be served on the defendants. That was done. It was that service that led the defendants to raise the objection under review, on November 19, 2007.

[9] For greater understanding, it must be noted that, on November 14, 2007, Microsoft filed a motion against the respondents, and served it on them, similar to the first Microsoft motion (hereinafter the second Microsoft motion). Essentially, that second motion covers very recent events not covered in the first motion, but similar to those alleged in the first Microsoft motion.

[10] Those two Microsoft motions were before the Court for adjudication on November 19, 2007. However, the parties essentially limited their submissions to the contents of the three counts contained in the first Microsoft motion given the very similar approach of the two motions. It is understood that, if the Court is satisfied that it has *prima facie* evidence of the contempt alleged in any of the three counts in the first Microsoft motion, the Court will issue the desired orders on both motions.

### **Analysis**

[11] As mentioned above, the first Microsoft motion contains three counts. Each of those counts (counts 2a) to 2c)) must be examined to see if the Court finds, based on the challenges raised by the defendants regarding each count, that it nonetheless has *prima facie* evidence of the alleged contempt.

#### **1<sup>st</sup> count**

[12] This is count 2a) from the notice of motion. it reads as follows:

- a) in the case of Carmelo Cerrelli and VSOP Web, disobeying paragraph 13 of the Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington, dated December 18, 2006, which constitutes contempt of Court under Rule 466(b) F.C.R., and/or under Rule 466(c) F.C.R. in the case of VSOP Web, by accomplishing the following acts, in the case of VSOP Web directly and under the instructions and control of Carmelo Cerrelli, and in the case of Carmelo Cerrelli through

VSOP Web directly or indirectly through intervening entities or persons under his control,

- (i) on January 31, 2007, selling a counterfeit copy of Microsoft SQL Server 2000 Standard Edition CD-ROM with a counterfeit End User License Agreement and counterfeit disc case liner;
- (ii) on February 5, 2007, selling a copy of Microsoft SQL Server 2000 Enterprise Edition CD-ROM with a counterfeit End User License Agreement;
- (iii) on April 17, 2007, selling a counterfeit copy of Microsoft Exchange 2000 Enterprise Server CD-ROM with counterfeit Client Access Licenses and counterfeit disc case liner;
- (iv) on April 17, 2007, selling a counterfeit copy of Microsoft SQL Server 2000 Standard Edition CD-ROM with a counterfeit End User License Agreement and counterfeit disc case liner;
- (v) on April 20, 2007, selling a counterfeit copy of Microsoft SQL Server 2000 Standard Edition CD-ROM with a counterfeit End User License Agreement;
- (vi) on April 24, 2007, selling a counterfeit copy of Microsoft SQL Server 2000 Standard Edition CD-ROM;
- (vii) On May 11, 2007, selling a counterfeit copy of Microsoft Exchange 2000 Enterprise Server CD-ROM;

each of which amounts to

- (i) using the trade-mark MICROSOFT, or a trade-mark confusingly similar thereto, in association with counterfeit copies of Microsoft computer software programs and associated material, which constitutes an infringement of Microsoft's rights under Canadian Trade-mark Registrations TMA 309,288 and TMA 520,594, in violation of Section 19 or 20 of the *Trade-marks Act*, and of paragraph 13 of the



Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington;

- (ii) using the trade-mark MICROSOFT, which is the subject-matter of Canadian Trade-mark Registrations TMA 309,288 and TMA 520,594 in the name of Microsoft, in association with counterfeit copies of Microsoft computer software programs and associated material, which is likely to have the effect of depreciating the value of the goodwill attaching to the trade-mark MICROSOFT, in violation of Section 22 of the *Trade-marks Act*, and of paragraph 13 of the Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington;
- (iii) using the trade-mark MICROSOFT to direct public attention to counterfeit copies of Microsoft computer software programs and associated material, which causes or is likely to cause confusion between such counterfeit products and genuine Microsoft products, in violation of Section 7(b) of the *Trade-marks Act*, and of paragraph 13 of the Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington;
- (iv) passing-off counterfeit copies of Microsoft computer software programs and associated material as and for genuine Microsoft products, in violation of Section 7(c) of the *Trade-marks Act*, and of paragraph 13 of the Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington;

[13] Regarding this count, the defendants noted that the wording in fact refers to two products that are not in the list of 25 items that Harrington J. referred to indirectly in paragraph 12 of the Judgment. The following must be noted regarding that reference.

[14] First, the list of 25 items referred to by the defendants is included, by way of reference, in paragraph 12, not paragraph 13. However, count 2a) refers to paragraph 13 of the Judgment.

[15] Moreover, the following wording from paragraph 13 allows Microsoft to refer to any software or related material using any Microsoft trade-mark:

(...) including CD-ROMs or other media containing copies of any Microsoft program, or related material, as and for those of Microsoft, using any of the said Microsoft trade-marks (...)

(Emphasis added.)

[16] This argument by the defendants therefore cannot succeed.

[17] The defendants also denounced the fact that all evidence from Microsoft in its motion record is directly or indirectly from people on Microsoft's payroll, not independent experts.

[18] That argument by the defendants certainly cannot succeed in defeating the orders sought by Microsoft.

[19] Indeed, it seems more than normal to me in this type of investigation, which is lengthy and full of obstacles, for a corporation like Microsoft to rely on its own investigators and experts. In this regard, Microsoft relied on, among others, the affidavit from Michelle Boyes, who was recognized by Harrington J. as an expert during the proceeding that led to his Judgment.

[20] Regarding this count 2a), I also consider that Microsoft met the requirements set out in the relevant rules and jurisprudence for the Court to consider that it has *prima facie* evidence of the contempt set out in count 2a).

**2<sup>nd</sup> count**

[21] This count, count 2b), reads as follows in the notice of motion:

- b) in the case of Carmelo Cerrelli and VSOP Web, circumventing, evading and frustrating the permanent injunction provided for at paragraph 12 of the Judgment and Permanent Injunction of the Honourable Mr. Justice Harrington, which constitutes contempt of Court under Rule 466(c) F.C.R., by:
  - (i) dealing in counterfeit copies of more recent Microsoft computer software programs and associated material, which are not listed among the titles that are the subject-matter of the aforementioned injunction;
  - (ii) attempting to conceal such activities, and Carmelo Cerrelli's involvement therein, by:
    - a) using a third party to this proceeding, namely VSOP Web, acting under Carmelo Cerrelli's instructions and control;
    - b) moving the operation to other premises;
    - c) transferring the ownership of the shares in VSOP Web from the Cerrelli Trust to a person named Shelly-Ann Gray who appears to be Carmelo Cerrelli's wife;
    - d) substituting an employee, namely Daniel Perpetuo, and the aforementioned Shelly-Ann Gray, in lieu of Carmelo Cerrelli, as director and president of VSOP Web;

[22] Here, the defendants cited the very text of subparagraphs 2b)(ii) a) to d) to claim that each of these actions in itself certainly cannot be seen as constituting the offence alleged at the beginning of count 2b).

[23] That is an unacceptable attack, as this exercise by the defendants is a surgical and isolated reading that fails to consider the introductor wording of paragraph 2b)(ii), which indicates the *mens rea* behind each of the following actions.

[24] That same paragraph 2b)(ii) itself refers to the illegal activities described in paragraph 2b)(i). Read as a whole, paragraphs (i) and (ii) certainly give *prima facie* support to the introductory wording of count 2b).

[25] Regarding that same count, the defendants claim that Microsoft's motion record did not contain any evidence in the affidavits to support the allegations in subparagraphs 2b)(ii)a) to d).

[26] Although it is true that paragraph 34 of the written submissions by Microsoft do not refer to in that part to the evidence sought by the defendants, a reading, *inter alia*, of paragraphs 25 and 26 of the same submissions reveals an abundant reference to various paragraphs of the affidavit by Mr. Steve E. Studhalter, including paragraphs 37 to 41.

[27] The defendants' grounds for challenging count 2b) also cannot succeed. Moreover, the conclusions expressed by the Court in paragraph [20], above, apply here *mutatis mutandis*.

### **3<sup>rd</sup> count**

[28] The text of this third count, count 2c), reads as follows in the notice of motion:

- c) in the case of Carmelo Cerrelli, reorganising his business to avoid paying the monies that the defendants were ordered to pay pursuant to Mr. Justice Harrington's Judgment and Permanent Injunction, and Order as to Costs, which constitutes contempt of Court under Rules 466(b) and 466(c) F.C.R., by:
- (i) having the first-named numbered company defendant, 9038-3746 Quebec Inc., file for bankruptcy protection shortly before its bookkeepers were scheduled to be deposed after judgment regarding its assets;
  - (ii) while the second-named numbered company defendant, 9014-5731 Quebec Inc., had been struck from the Quebec Enterprises Registry since May 8, 1999;
  - (iii) transferring his residential property at 299 Matisse St., Dollard-des-Ormeaux, Quebec, Canada, valued at \$645,900 for tax assessment purposes, to his sister Lydia Cerrelli, for the reported sum of \$1 after the institution of this proceeding, on May 3, 2002, which sister the first-named numbered company defendant had sued in Superior Court of Quebec file no. 500-05-056639-006 in 2000 for refusing to be supplied with counterfeit Microsoft software products for resale, and which residential property was re-transferred to Carmelo Cerrelli's wife, Shelly-Ann Cerrelli for the reported sum of \$750,000 on July 10, 2007;

while he continues to profit from infringing Microsoft's rights by dealing in counterfeit copies of Microsoft computer software programs and associated material through a third party, namely VSOP Web;

[29] Regarding this count, the defendants again adopt an exercise similar to what they proposed for count 2b). Citing the wording of paragraphs 2c)i) to (iii), the defendants argue that the facts described therein are, in short, common events in a commercial reality and that those facts were not at all prohibited by Harrington J. in his Judgment.

[30] Microsoft, however, notes that paragraphs 2c)(i) to (iii) are facts that demonstrate the actions described and alleged in the text above and below those paragraphs, namely, in short, that the defendant Carmelo Cerrelli has, since the Judgment, maintained a reorganization of his affairs to continue what has to date been prohibited by this Court, while avoiding having the damages and costs awarded in the Judgment taken from the corporate defendants or the personal assets of defendant Cerrelli.

[31] As well, and more specifically, it is clear that paragraphs 2c)(i) and (ii) must be read as a whole and it is the choice in time to transfer assets in paragraph 2c)(i) and the result of that choice, i.e. a total disappearance of the corporate defendants, that are denounced by Microsoft.

[32] I do not feel, as suggested by the defendants, that Microsoft is prevented, before this Court, from raising what it alleges because it has not yet taken any formal action before the bankruptcy division of the Superior Court of Quebec to denounce or oppose the bankruptcy in question.

[33] Regarding paragraph 2c)(iii), the defendants are wrong to focus solely on the transfer of property in May 2002 to denounce the fact that Microsoft is claiming contempt regarding an event that dates well before the date of the Judgment.

[34] A reasonable reading of this paragraph at this stage instead supports the fact that the transfer of property by the defendant Carmelo Cerrelli to get it out of his patrimony clearly occurred in 2002, after and because of the action launched in this case and that, since the Judgment, another

apparent transfer has involved the same property. At all relevant times, or at least at this time, Mr. Cerrelli and his spouse nonetheless live in that property.

[35] Microsoft also referred to the basic teaching in *Canadian Imperial Bank of Commerce v. Sayani* (1998), 2 C.P.C. (4<sup>th</sup>) 54 (C.S.C.B.) (Hall J.).

[36] Although the facts that form the basis of that decision differ from those in the case at hand, the fact remains that, in my view, the excerpts above support Microsoft's position, in particular, that Mr. Cerrelli contravened Rule 466(c):

17 Counsel for the defendant points out correctly that mere failure to pay money is not generally a contempt of court. In connection with that argument, reference was made to a judgment of our Court of Appeal, in *Royal Bank of Canada v. McLennan* (1918), 25 B.C.R. 183. However, Huddart J. (as she then was), noted in *Manolescu v. Manolescu* (1991), 31 R.F.L. (3d) 421 at p. 433:

Wilful breach of a court order will always be a contempt of court. A deliberate refusal to pay money pursuant to a court order when one has the ability to pay will constitute a civil contempt of the court. It is also a private injury or wrong to the person who is the beneficiary of the order.

That case concerned a husband who had consistently refused to obey court orders concerning arrears and support. Counsel for the defendant suggested that case was distinguishable but I believe it to be a correct statement of legal principle. The learned judge in that case found that the conduct was a deliberate contempt going beyond a mere failure to pay money. I believe likewise that this case involves much more than a simple failure to satisfy a judgment debt by paying money to a judgment creditor. As I perceive the circumstances, the activity of the defendant undertaken in the

month of March 1995 was intentional activity designed to put beyond the reach of any creditor the money she then held on deposit in the Swiss bank. By simply transferring the asset to her brother, she erected an impenetrable and opaque wall between the funds and the plaintiff here. The purpose was to render nugatory any judgment that might be rendered against her, the likelihood of which judgment was becoming extremely imminent. This was conduct calculated and designed to interfere with the due administration of justice in this country and I have no hesitation in characterizing it as contempt.

(Emphasis added.)

[37] The defendant's arguments regarding this count 2c) are also dismissed. Here again, the conclusions stated by the Court in paragraph [20], above, apply, *mutatis mutandis*.

### **ORDER**

The defendants' challenge is dismissed, with costs, and the Court considers that it is justified under Rule 467(3) in approving, separately, the two draft first-stage orders for contempt submitted by Microsoft.

**“Richard Morneau”**

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Prothonotary



**FEDERAL COURT**

**SOLICITORS OF RECORD**

**DOCKET:** T-1502-00

**STYLE OF CAUSE:** MICROSOFT CORPORATION  
Plaintiff  
and  
9038-3746 QUEBEC INC., and  
9014-5732 QUEBEC INC., and  
ADAM CERRELLI, and  
CARMELO CERRELLI  
Defendants

**PLACE OF HEARING:** Montréal, Quebec

**DATE OF HEARING:** November 19, 2007

**REASONS FOR ORDER:** PROTHONOTARY MORNEAU

**DATED:** November 23, 2007

**APPEARANCES:**

François Guay  
Marc-André Huot

FOR THE PLAINTIFF

Neil G. Oberman

FOR THE DEFENDANTS

**SOLICITORS OF RECORD:**

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Montréal, Quebec

FOR THE PLAINTIFF

Michelin & Associates  
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FOR THE DEFENDANTS