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IP: A YEAR IN REVIEW
BEST BUSINESS PRACTICES AND LESSONS LEARNED

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Any professional practicing in Intellectual Property today will agree to the following: when providing business counsel, it is no longer sufficient to focus on the core trinity of patents-copyright-trademarks. Intellectual Property matters have branched out to include such accessory issues as franchise and licensing agreements, trade-secrets, unfair competition, antitrust, defamation, commercial transactions, trade-name matters, language considerations, and so on.

This sophisticated branching out of the field is reflected by the selection of case law reviews found below. While not necessarily headline material, each illustrate important "lessons learned" and provide essential best business advice to practitioners, whether in house or not. These IP decisions, rendered between June 2009 and June 2010, were analysed to underline: i) the facts and ii) the Court's decision, to reach iii) the best business practices, with the objective to illustrate how crucial certain considerations are to avoiding litigious situations relating to IP matters. [Laurent Carrière and Jason Moscovici]

Patents - Public Disclosures that Invalidate Patents

Bauer Hockey Corp. v. *Easton Sports Canada Inc.*, 2010 FC 361

Public disclosure of an invention can often bar an applicant from obtaining patent protection for their invention. Canada provides a one-year grace period for such a public disclosure provided that the patent application is filed within the first year of disclosure. However, the question of what constitutes a public disclosure is often raised. An example of the importance of this question has been recently addressed in a patent infringement case between Bauer Hockey Corp. and Easton Sports Canada Inc.

In this case, Bauer alleged that certain Easton skate models infringed on Bauer's rights under Canadian Patent No. CA 2,302,953. Easton counterclaimed that Bauer's

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patent was invalid, among other reasons, as being anticipated through a public disclosure of the invention more than one year prior to the filing of the patent application. The alleged public disclosure involved testing of skates in a public arena at an athletes' event where the skates were tested by NHL players. Not all the individuals present at the athlete's event had signed a confidentiality agreement.

The patent in the present case related to an interior component of the skate which is made from a single piece not visible to a user looking at the skate without it being dismantled. The Court stated that in order for a public disclosure to constitute grounds for invalidity of a patent, the disclosure must be such that a person skilled in the field of the invention, if asked to describe the construction and operation of the invention, is able to write down a clear and unambiguous description of the invention.

The Court concluded that a mere visual inspection of the skate, without dismantling thereof, could not have enabled a person skilled in the art of the invention to write down a complete description of the invention. Consequently, the patent was judged to be valid notwithstanding this prior public disclosure.

This “close call” still serves as an illustration as to why confidentiality agreements should always be obtained from people involved with preliminary displays of the invention. [Adam Mizera]

Patents – Evidence of Oral Agreement to be Clear to be Convincing
Gatter v*. Risley Enterprises Ltd.,* 2009 BCSC 826

Douglas Gatter (“the Plaintiff”) is a welder and inventor of the “snubber”, a device to prevent the bucket doors of a mining machine from banging against the frame when a load is released. The Plaintiff contacted Rislev Enterprises Ltd (“the Defendant”) in order to develop his invention and eventually market it. The parties entered into an oral agreement to the effect that the Plaintiff would receive royalties equal to a percentage of the sales. However, it was unclear if the agreement extended to snubbers manufactured by third parties through licensing agreements.

The Court found that the agreement concerned the “use of the snubber invention”, which not only included the “manufacture of snubbers” by one of the Defendant Companies, but by third parties as well. The only document that made reference to this agreement was a letter in response to a request by the Plaintiff for an advance on royalties that stated that royalties had to be paid on the “use of the snubber invention”. The Court also accepted the Plaintiff’s evidence regarding the discussions and negotiations with the Defendant, as the witness testimony was clear and direct.

This case reminds us that when developing a product of invention, it is vital to clearly and precisely put in writing every agreement relating to the invention. This case also illustrates, while not necessarily relating to business per se, the importance of a well-prepared witness. The assessment of credibility by the judge may play in favour of

either party, especially when there is no specific written document to corroborate the testimony of a witness. [Anne-Christine Boudreault]

Trade-marks – Always Use your Trade-Mark as Registered
CIBC World Markets Inc. v. Stenner Financial Services Ltd., 2010 FC 397

For those interested in tips on trade-mark use, this case provides a timely lesson in how *not* to use your registered trade-mark.

The backdrop for this trade-mark lesson is “part of a nasty continuing intra family fight pitting father against daughter and father against son”. Various members of the Stenner family worked in the field of financial services and each had reason to use the family name to advertise his or her own service.

The trade-mark at issue in this case was STENNER; it had been registered in May of 2005 by Gordon Stenner on behalf of his company Stenner Financial Services Ltd. in association with financial services and the provision of seminars and radio programs in the field of financial services and investments.

Gordon Stenner’s son, Thane Stenner, a registered full service financial advisor, worked for his father but later moved on and was hired by CIBC World Markets Inc. There, he used his last name to advertise his services. However, both Thane and CIBC World Markets Inc. were told by Gordon that their use of the name “Stenner” constituted trade-mark infringement and passing off.

Thane and his employer commenced expungement proceedings against the STENNER registration under Canada’s *Trade-marks Act*. The applicants alleged that the trade-mark STENNER should be declared invalid and expunged from the register since it was not registrable at the date of registration because “Stenner” is a surname and it had not become distinctive at that time of Stenner Financial Services Ltd.; moreover, it was further alleged that it was not distinctive at the time of the commencement of the expungement proceedings in late 2007.

The Court found that the father’s use of the name Stenner was always made in conjunction with other words such as “group” or “team” or similar words; Stenner was obviously a surname; the continually changing use of other terms in association with the word Stenner prevented the father’s mark STENNER from acquiring any distinctiveness by itself and the father did not establish that the word “Stenner”, the mark actually registered, was ever used alone.

Consequently, the lack of use of the trade-mark STENNER, the mark actually registered by the respondent, allowed the Court to find that such trade-mark was not distinctive and ordered its registration expunged.

The most important lesson to take away from this case is that if you register a mark that is inherently weak, such as a family name, you should always use the mark as a stand alone mark in order to enable it to acquire distinctiveness. Failing such use, the registration becomes vulnerable to expungement as the fallout from this family dispute illustrates. [Barry Gamache]

Trade-marks – Indirect Control in Sublicensing
Tucumcari Aero, Inc. v. *Cassels, Brock & Blackwell LLP* 2010 FC 267

This appeal from a decision of Canada's Registrar of Trade-marks expunging a registration, highlights the importance of ensuring that appropriate licensing arrangements are in place when a trade-mark is licensed, or even sub-licensed, for use by a third party.

In Canadian trade-mark practice, the licensed use of a mark must ultimately be subject to a certain level of quality control by the owner of the mark. Before the Registrar, Tucumcari's registration for the mark MOTO MIRROR & design was expunged because the Registrar considered its evidence of direct or indirect control over the character or quality of the products marketed under the trade-mark, as per the terms of an unspecified licence agreement, was ambiguous. As such, the licensed use of the trade-mark could not inure to its benefit.

On appeal, Tucumcari submitted additional evidence, including a description of the corporate and contractual relationships between Tucumcari, its licensee and a sub-license, the latter having been identified as the manufacturer and seller of the goods in Canada. Copies of licensing and sub-licensing agreements formed part of the record before the Court.

The Court rejected the argument that in the context of sub-licensing, the indirect control contemplated under Canadian Trade-mark law requires an express condition in the sub-license that the owner of the trade-mark will continue to determine whether the quality of the goods produced has been maintained. Instead, it stated the key element is the existence of a continuity of quality control that can be effectively maintained by the trade-mark owner under the chain of contracts. Therefore, as long as the trade-mark owner is able to control product quality through the exercise of its contractual rights towards the intermediary, who in turn is entitled to control product quality under contract with the sub-licensee, no special conditions or language are required in the sub-license.

Tucumcari retained the rights under the License Agreement to control the quality of the products produced under the MOTO MIRROR & design mark, including the right of annual inspection. Also, if the products produced by the sub-licensee were deficient, Tucumcari could have terminated the license agreement, thereby bringing an end to the sub-license arrangement. The Court decided these elements were sufficient to establish indirect control by Tucumcari.

This case sheds some new light on the issue of quality control provisions in sub-licenses. It would appear that as long as the trade-mark Owner retains the right under a license agreement to control the quality of the products, including the right of inspection, there is no requirement that the sub-license agreement should explicitly be made subject to the terms and conditions of control contained in the master licensing agreement. [Stella Syrianos]

Copyright - Joint Authors of a Book not on the Same Page
Neugebauer v. Labieniec, 2009 FC 666

In this case, Henry Neugebauer, a Polish octogenarian and Holocaust survivor, applied before the Federal Court to expunge a copyright registration identifying both himself and Anna Labieniec, a Polish writer and journalist, as co-authors of a book.

In September 2005, the parties first agreed Anna Labieniec would provide transcripts of the tapes recorded by Mr. Neugebauer and edit the Polish written materials into an organized manner. Subsequently, the parties also verbally agreed that Anna Labieniec would write a book based on Mr. Neugebauer life story. The book was first published in May 2006 with a copyright notice referring to both parties as co-authors. The present case arises from a disagreement as to the authorship of the book.

In order to rule on the validity of the copyright registration at issue, the Court had to decide i) whether Anna Labieniec's contribution to the book qualified as authorship and ii) whether the parties' respective contribution constituted joint authorship.

On the issue of authorship, the Court found that, due to Anna Labieniec's creative and original contribution, the book was not the result of a mere transcription of Mr. Neugebauer narrative with simple editorial arrangements. She was thus entitled to claim authorship of the book.

On the issue of the parties' respective contributions, the Court held that the parties should be considered as co-authors. Given the parties' verbal agreement leading to the publication of the book, the creative efforts of Anna Labieniec as well as the parties' post-publication behaviour, including Mr. Neugebauer having identified himself as the co-author of the book, the Court rejected his claim that he was the sole author. The application to expunge the copyright registration was therefore dismissed.

This case provides food for thought on the issue of entitlement to joint authorship whose statutory definition requires two elements: there must be collaboration and the contribution must not be distinct. While Mr. Neugebauer and Ms. Labieniec met these two requirements, what about the collaborators' intention? The Court seemingly opened the door to future debate by adding to its conclusion that "the parties intended that their contributions be joined in furtherance of a common design". This debate may

be resolved sooner rather than later by the Federal Court of Appeal given Mr. Neugebauer has appealed this decision.

When dealing with a work of joint authorship, co-authors are best advised to enter into a written agreement providing clear indications as to the collaborative and indivisible nature of the work and more importantly, their common intention with regard to the work. [Catherine Bergeron]

Information technologies - Hyperlinking to a Site does Not Amount to Publication of Hyperlinked Material
Crookes v. Newton, 2009 BCCA 392

Wayne Crookes, a Vancouver businessman occasionally volunteers for the Green Party of Canada. Jon Newton, who describes himself as a journalist, is a blogger who publishes a website for commentary on issues such as free speech and the Internet. Mr. Newton published an article on his website entitled "Free Speech in Canada", in which he commented the impact of defamation actions on discussion forum operators, such as the action brought by Mr. Crookes in 2006 against an individual named Mr. Pilling.

By means of hyperlinks (and without reproducing any content), Mr. Newton added references to the websites of usgovernetics and openpolitics, where articles on Crookes' case were available. As of February 1, 2008, the article "Free Speech in Canada" had been accessed 1,788 times. Mr. Crookes then requested that Mr. Newton remove the hyperlinks found on his website, alleging that the related websites contained defamatory material.

The Court had to decide whether or not the inclusion of a hyperlink on a website, or the refusal to remove a hyperlink when notified of its alleged defamatory aspect, amounted to the presumption of publication by the Mr. Newton of the materials found at the hyperlinked sites. In dismissing the appeal, the Court agreed that hyperlinks could be compared to footnotes in this particular case, but indicated that the footnote analogy is not a complete answer for all cases.

In some circumstances, hyperlinking to a site could nonetheless amount to publication of the material found at the hyperlinked site. Factors to consider may include the prominence of the hyperlink, any words of invitation or recommendation to the reader associated with the hyperlink, the nature of the materials that may be found at the hyperlink and the apparent significance of the hyperlink in relation to the article as a whole.

Noteworthy, the Court refused to infer from the 1,788 "hits" associated with the article that at least one person within the Court's jurisdiction did have access to the impugned articles by way of the hyperlinks.

This case may serve as an illustration that businesses wishing to allege defamation, should consider having and making use of web traffic analytical tools that assist in keeping track and archiving such information which could prove useful in their cases. [Marcel Naud]

Defamation – A New Defence Available
Grant v. Torstar Corp., 2009 SCC 61; *Quan* v. *Cusson*, 2009 SCC 62

On December 22, 2009, the Supreme Court rendered two decisions introducing a new defence in a common law claim for libel.

In *Grant* vs. *Torstar Corp*, the Plaintiff and his company filed an action for libel against a newspaper and reporter pursuant to an article published with respect to a private golf course development to be built on the plaintiff's land. The story included comments from local residents who criticised the project because of its environmental impact and who informed the reporter that they suspected the plaintiff was exercising political influence behind the scenes to obtain the necessary approvals.

The Supreme Court analysed the balance between defamation and freedom of speech and after a review of foreign jurisprudence, agreed that the common law of defamation should be modified to enhance the protection afforded to communications on matters of public interest. This defence includes two conditions: (1) the publication in question must be on a matter of public interest, and (2) the communication must be responsible.

To determine whether the communication was responsible, certain (non exhaustive) circumstances were looked at: the seriousness of the allegations, the public importance and urgency of the matter, the status and reliability of the source, whether the plaintiff's side of the story was sought and correctly reported, whether the inclusion of the defamatory statement was justifiable, and whether the defamatory statement's public interest lay in the fact that it was made rather than in its truthfulness.

The same defence was accepted in *Quan* v. *Cusson* when a Canadian police officer objected to a newspaper article reporting that he had misrepresented himself to New York authorities after the September 11 attacks and had interfered with the rescue operations at Ground Zero. The Court reiterated that the defence of responsible communication on matters of public interest was applicable where the publication is a matter of public interest and the publisher was diligent in trying to verify the allegations.

If there is something to take away from this case, it is that businesses involved in dealings with the press, directly or indirectly, should be mindful of the fact that this new defence can limit recourses for libel matters, where the public's interest in a

reasonable communication is taken into account when evaluating defamation claims. [France Lessard]

Quebec Charter of the French Language - Markings on Speciality Products
Québec (Procureur général) c. Distribution Percourt inc., 2010 QCCQ 2858

In this case, the defendant Distribution Percourt inc. was accused of violating the Quebec *Charter of the French Language* because the packaging of some products sold in its premises were labelled in a language other than French. As a general rule, the *Charter* provides that every inscription on a product (whether on the product itself or on its container or on its wrapping or on a document or object supplied with it), along with catalogues, brochures and similar publications, must be drafted in French. While the inscription on a product may be accompanied by a translation, it may not be given greater prominence than the inscription in French.

An inspector for the *Office québécoise de la langue française* (the government agency mandated with enforcing the *Charter*) presented himself in the establishment carrying the goods and found that the information on the product's label (a sexual aid device) was solely in English.

The court rejected *Distribution Percourt inc*'s defence alleging a statutory exception which allows for product inscriptions to be exclusively in a language other than French if the product comes from outside Quebec and is in limited use with no equivalent substitute presented in French. *Distribution Percourt inc's* had previously attempted to prepare French labels for the product and therefore the legal exemption was inapplicable. It is interesting to note that the court also rejected the defendant's allusion to the elevated production costs associated with obtaining compliant labels.

.This case serves as a stark reminder to businesses selling or contemplating selling products in Québec of this province's particular language requirements. As dictated by the *Charter,* products sold in Quebec, which do not benefit from any explicit exemptions, must carry French inscriptions and should there be any accompanying translations, they must be given equal or lesser prominence than the French inscriptions. [Audrey Benoualid]

False Advertising: Asian Night Markets and the Art of Passing Off
Target Event Production Ltd. v. *Paul Cheung and Lions Communications Inc.* 2010 FC 27

In practice, it is not uncommon for clients to question the scope of copyright and trademark protection. In the present matter, both concepts were addressed in an action for passing off and copyright infringement. The plaintiff (Target) sought damages for the defendant's (Lions) operation of an Asian night market in 2008.

From 2004 to 2007, Target had been operating a night market in the town of Richmond, British Columbia, on a leased property under the name of “THE RICHMOND NIGHT MARKET + Logo” (and RICHMOND SUMMER NIGHT MARKET, in Chinese characters). The market gathered vendors who operated booths at locations defined by a market site plan drafted by Target. Every year, vendors reserved their booths through an application process, using forms also authored by Target.

In 2008, despite the market’s success, Target could not reach an acceptable agreement with the property’s landlord and the lease was not renewed for the 2008 event. Lions, taking advantage of this opportunity, leased the same property to organize a similar market and solicited Target’s previous vendors using the same floor plans and application process. Lion’s market operated under the name “SUMMER NIGHT MARKET” and “RICHMOND SUMMER NIGHTMARKET” in English and Chinese characters.

At trial, the judge focused on evaluating the allegations of copyright infringement and passing off in light of Canada’s *Copyright Act* and *Trade-marks Act* and awarded damages to the effect of $15,000.00 (CAD).

For infringement, Target showed that copyright existed in both their market floor plans and their application forms. The judge established that “the infringement of Target’s Site Plan was the *sine qua non* for the operation of Lions’ Market in 2008. Without this infringement, it is unlikely that Lions could have opened with all vendors in place in June 2008.” Lion’s defence, that there was no other logical way to establish the site due to its functionality, was not accepted.

For passing off, it was shown that at the visitor level, the choice of the name for Lions’ event was calculated to convey to visitors that the event was Target’s successful night market or was at least a “continuation of Target’s successful Richmond Night Market”. However, at the vendor level, sufficient publicity of the organisational change resulted in the absence of confusion.

Businesswise, as shown with the present case, picking up where someone else left off can be a perilous venture if one does not invest in distinguishing itself from the previous operation, especially in the milieu of event planning, where design and layout are critical elements. As well, a change in organisation should be publicly apparent, so as not to imply continuance of business. Finally, prudence dictates that making reference to the prior entity’s success, in an associative manner, should be avoided. [Jason Moscovici]

Patent – Ownership – Enforceability of a Memorandum of Understanding
Quantum Leap Research Inc. c. Kay, 2010 QCCS 1449

This case dealt with the ownership of rights to an invention developed through a collaboration between Mr. Ira Kay, an external consultant, and Quantum Leap research Inc. (“Quantum”), for which a patent was filed and granted (the “Invention”). In 2004, the parties had agreed to develop the Invention upon certain conditions, set out in a letter of intent, including, amongst other elements, that Mr. Kay be named as the sole inventor of the Invention while assigning all of his rights to a new company (“Newco”) owned by Mr. Kay and Quantum. Shortly thereafter, the parties executed a memorandum of understanding (“MOU”) whereby Mr. Kay would immediately assign his rights in the Invention to Quantum for and on behalf of Newco. The MOU provided for an assignment with immediate effect, subject to determination (resolution) at Mr. Kay’s option in the event that Quantum refused to enter into agreements giving effect to the transaction. At the beginning of 2005, Mr. Kay lost interest in his collaboration with Quantum and requested the retrocession of his rights in the Invention, as per his option in the MOU.

The court determined that the MOU was enforceable and that the condition to close the transaction did not preceed the MOU, it was subsequent to the MOU. The Court also found that the condition that would trigger Mr. Kay’s rights to retrieve his rights in the Invention was Quantum’s refusal to enter into the relevant agreements and not the absence of agreement amongst the parties. Accordingly, the Court confirmed Quantum as the owner of all rights in the Invention, and declared the retrocession rights of Mr. Kay forfeited.

This decision demonstrates the importance of negotiating and entering into clear agreements and establishing unambiguous closing conditions. Moreover, this decision serves as a reminder that in certain cases, intellectual property rights are essential in order to be able to commercialize certain inventions. The assignment and cooperation of the inventor could be required even if the ownership rights in the invention belong to the party having financed or ordered the development of the invention. It is therefore essential to have clear and definitive agreements in place with any partner, collaborator and even employees in order to secure all rights required in the pursuit and commercialization of contemplated business projects. [Marie-Ève Côté]

Anti-trust – Settlement Agreement May be Anticompetitive
Apotex Inc. v. ADIR, 2009 FCA 222

In the present case, the Federal Court of Appeal upheld a decision stating that the mere exercise of patent rights does not amount to impairment of competition, as contemplated by Canadian law unless there is “something more”.

While the present case involves patent infringement, core elements of the *Competition Act* were analysed and at the root of lengthy conflict proceedings involving patent applications filed by ADIR, Schering Corporation (Schering) and Hoechst Aktiengesellschaft (Hoechst), which were finally settled when a Federal Court order was issued on consent. The Order provided for the allocation of certain rights to claim

an invention between ADIR, Schering and Hoechst, the rights allocated to ADIR resulted in the granting of the patent at issue.

Apotex argued that the settlement agreement unduly lessened competition. Its arguments were twofold: 1) had the conflict proceedings been decided by the Court rather than settled, ADIR may not have been granted exclusive patent rights, therefore raising the "probability" that the agreement provided ADIR with greater market power than it would otherwise have had; 2) ADIR entered the agreement specifically to avoid the result that either no claims, or overlapping claims, covering the relevant product would be issued.

The Court rejected Apotex's arguments as it found that they were solely based on speculation, observing that, firstly, the Court could have granted the claims precisely as they were allocated in the settlement, and secondly, every step of the process leading to the settlement agreement was in accordance with the rights of ADIR under Canadian law. However, the Court also stated that even though the facts of this case did not warrant a finding of offence under the *Competition Act*, there could be circumstances where a settlement agreement could constitute the "something more" required for such a finding.

This latter remark is important for businesses entering into patent settlements, as it opens the door to future challenge of these settlements under Canadian competition law. There is presently little indication as to what could constitute the "something more" that could render a settlement agreement unlawful. Consequently, special care should be taken when entering into a patent agreement that may have an impact on competition. Licensing and assignment of patent rights should particularly be analysed carefully, bearing in mind the requirements of the *Competition Act.*

Finally, it should be noted that amendments to the *Competition Act* came into force on March 2010 which now limit the application of the criminal charges of conspiracy (which were at issue in this case) and create a new category of offences for agreements that lessen, or are likely to lessen competition substantially in a market. It is under this new category of offences that IP agreements risk being challenged in the future. [Jean-François Journault]

Trade-names - Three Letters Worth More than $300,000.00

Michelin Amérique du Nord (Canada) Inc. and Compagnie Générale des Établissements Michelin v. John Mitchel 2009 10 20 420 (REQ)

The present case addresses the issue of alleged confusion between a trade-mark and a trade-name. Michelin North America (Canada) Inc. ("Michelin") is a well known company which operates in the sale of various types of tires, inner tubes and related services. A certain Mr. John Mitchel registered himself during the month of February 2008 at the Quebec Enterprise Register as doing business under the corporate names of "Michelin North Amerika INCA" and "Michelin Nord Amérique INCA", listing its economic activities

as the transport of merchandise as well as import/export. Michelin would eventually learn the similarity in the names was not a coincidence.

A check drafted for "Michelin North America" by the Iron Ore Company of Canada ("Iron Ore") for the amount of $332,818.44 was stolen before it reached its addressee. Mr. Mitchel was put in possession of this check and added the letters "NCA". The check was deposited in his commercial account. The money was never recovered and Mr. Mitchel was eventually sentenced on March 10, 2010 for this fraud. Michelin then set its sights on getting the name Michelin in “Michelin North Amerika INCA” and “Michelin Nord Amérique INCA” removed from the Quebec Enterprise Register.

This administrative recourse was based on the grounds that Mr. Mitchel’s corporate names created confusion with Michelin’s trade-mark and name under which it conducted its business. Michelin succeeded in its recourse; however, while the law provides that the Registrar of the Quebec Enterprise Register can order a person or a corporation to change its name, it has no authority to remove or change a registered name itself. The Registrar therefore added a note to Mr. Mitchel’s public Enterprise file that a decision was rendered against him. This file is found in a public registry containing all the legal information concerning every company registered within the province of Quebec.

Companies should periodically check the Quebec Enterprise Register database in order to make sure there are no other companies or individuals doing business under a name that might create confusion with their business name or their trade-marks. Such policing, coupled with the administrative recourse used by Michelin, is a cheap and efficient way of making sure a company’s name and trade-marks remain unique and distinctive in the fields of business in which it operates. [Alexandre C. Archambault]

Trade secrets – Franchise and Confidentiality Orders
Fairview Donut Inc. v. The TDL Group Corp., 2010 ONSC 789

The plaintiffs, franchisees operating in the fast food industry, wished to initiate a class action suit against their franchisor, the defendant. They alleged the Defendant had breached its licence agreements by forcing them to convert from a “full-baking system”, whereby donuts and other goods are baked on-site, to a method called “Always Fresh”, where goods were baked at a central location and then prepared from frozen on-site. They also allege the Defendant obliged them to provide a lunch menu at unreasonably low profit margins. Plaintiffs argued these obligations had caused them to bear increased costs at lower profits.

On its end, the franchisor alleged that the plaintiffs represented inefficient and inexperienced operators which did not reflect the franchisee class as a whole.

The franchisor sought a sealing order as it was concerned about the disclosure of confidential financial information and trade secrets pertaining to confidential manuals for product preparation methods and procedures.

The Court reviewed the request for a confidentiality order as per the test established by the Supreme Court of Canada: 1) the evaluation of the necessity of the order to prevent a serious risk to an important interest and whether alternative measures exist; and 2) the evaluation of the salutary and deleterious effects of the order, including the right to a fair trial and the right to free expression.

The Court stated that "it is particularly important […] that the open court principle should be observed […] and a request for a sealing order in a class action should be approached with particular caution." As for trade secrets at issue, the Court mentioned they were of the most general nature and of a very low level of secrecy. The sealing order was therefore denied.

This decision illustrates the importance of knowing the value of your trade secrets. Litigation can force you to disclose information in view of the open court principle, especially in the case of class actions. If the trade secrets are of value, particularly to potential competitors, negotiations may be preferable to litigation, pending the evaluation of the likelihood of obtaining a sealing order. [Simon Picard]

Franchising – Franchisees: Backseat Drivers
Bark & Fitz Inc. v. 2139138 Ontario Inc., 2010 ONSC 1793

In this case, an interlocutory injunction was granted restraining certain franchisees from terminating their respective franchise agreements with the franchisor, Bark & Fitz and consequently breaching their ongoing obligations, including payment of royalty and advertising fees.

Bark & Fitz delivered unsolicited inventory of core products to the franchisees, together with delivery fee invoices and proceeded to de-list other products carried by the franchisees. The franchisees refused to carry these core products and ceased paying their advertising and marketing contributions, resulting in the franchisor putting them in default.

On their end, the franchisees claimed that the franchisor had itself caused the repudiation and termination of the contract based on its own fundamental breach of the contracts. The franchisees wanted to operate independently of the franchise system.

In its decision, the Court reminds us that: "*a fundamental breach" requires that the conduct of a party deprive the other of substantially the whole benefit of the agreement. This is a high threshold, even in the face of clear franchisor misconduct, and requires that the breaches have made it intolerable for the franchisees to continue to operate the franchise. The crux of a franchise agreement is the use of the name and trademark in exchange for royalty payments and its exclusive territory […]. As*

well, consistent quality and advertising and promotion are also critical benefits to a franchise agreement".

Even if the franchisor arbitrarily imposed products, inventory levels, handling and delivery charges, etc., it was insufficient to constitute a fundamental breach by the franchisor. The franchisees were not deprived of "substantially the whole benefit of the agreement", as they were able to continue to operate under the brand, logo and on their exclusive territories. Since it was proven that the franchise system could not survive the trial, the injunction was granted.

The main lesson to be learned from this case is that regardless of the content of a contract, a franchisor can arbitrarily impose new terms to franchisees without breaching its contractual obligations, if it can be proven that the franchisees can continue to operate the franchise. Bearing in mind that in the context of franchises, the burden of proving a fundamental breach is a heavy one, to better protect the franchisee against such type of misconduct, a right of termination by the franchisee should be provided in cases where the franchisor unilaterally imposes new product lines which would defeat the franchisees expected earnings. [Julie Larouche]

Franchising - Equitable Assignment of Franchise Agreements
Invicta Foods Services Ltd. v. *Café Suprême Canada Inc.*, 2010 BCSC 634

In a recent declaratory judgment rendered by the Courts of British Columbia, the plaintiff Invicta Foods Services Ltd. ("Invicta") successfully sought a declaration that the defendant C.S. Café Suprême Inc. ("Company 2") was liable towards Café Suprême Inc. ("Company 1").

In February 2004, Invicta and Company 1 entered into a franchise agreement enabling Invicta to operate a bistro under the "Café Suprême" trade-mark. After the failure of the business, Invicta was awarded damages in arbitration against Company 1 due to a material breach of the franchise agreement. It was only when trying to execute this judgment that Invicta learned that Company 1 had been stripped of all its assets, which in turn had been assigned to Company 2.

In virtue of the franchise agreement between Invicta and Company 1, the latter had the right to assign its interests in the agreement to any affiliate, such as Company 2. This being said, the agreement also stated that such assignee would then have to assume and be bound by, amongst others, all of the obligations included in the franchise agreement.

At trial, the defendants took the position that it was only the benefits ensuing from the agreement that were assigned to Company 2, and not the obligations.

In rendering its decision, the Court found that there was an equitable assignment of Company 1's interests in the franchise agreement to Company 2, and that such equitable assignment included all the rights and obligations of Company 1.

Since all of the obligations of Company 1 were also assigned to Company 2, the latter was therefore found liable to Invicta on the judgment originally issued against Company 1 and relating to the material breach of the franchise agreement.

This case may serve as a cautionary tale to franchisors that they should not employ, devious means, such as assignments as ways to escape from their obligations contained in the franchise agreement. As the Court put it, if equity permitted an assignment of the rights under a franchise agreement while retaining the obligations, "unscrupulous franchisors could then cause havoc in this important segment of the economy". [Catherine Daigle]

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