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a Publication of the Tech Group of Brownlee Fryett

It's a Small World After All...

trade-marks on the web & "long-arm" jurisdiction

As trade-marks come to be used on the Internet more frequently, there is a trend in the law toward the taking of jurisdiction over distant Defendants by Courts using long-arm statutes in cases of trade-mark infringement.

Each Province and State has some form of "long-arm statute." These permit suits in places where the Defendant is not resident. Canadian businesses can be effectively sued in any State of the U.S. if the requirements of the State's "long-arm statute" can be met.

Ignoring the legal action, or "not attorning to the jurisdiction," is often not an option. A business may have assets in that jurisdiction. Default judgments can be enforced in the Defendant's home jurisdiction.

long-arm jurisdiction in the U.S.

Most States of the United States apply a three-part test consisting of "purposeful availment," "relatedness" and "reasonableness." In *Zippo Manufacturing Company* v. *Zippo Dot Com, Inc.* (1997) 952 F. Supp. 1119, the Plaintiff was the cigarette lighter company owning the Zippo™ brand. It was a Delaware corporation with a Head Office in Pennsylvania. The Defendant, a California company, operated a newsgroup service in which messages and other information could be downloaded by subscribers. The Defendant displayed the word "Zippo" as a heading to all messages downloaded. The Plaintiff sued the Defendant in a Pennsylvania Court for trade-mark infringement.

The purposeful availment test is also known as the "minimum contacts" test. If a defendant "reached into" that state by establishing relationships there, they could be held responsible there. In *Zippo* the Defendant had contracts with several internet access service providers located in Pennsylvania (to support their service to their 3000 Pennsylvania State subscribers).

The second test is relatedness. The kind of wrongdoing alleged by the plaintiff must be related to the kind of purposeful availment. The Court in *Zippo* found that the display of the mark on downloaded messages was related to the Defendant's agreements with internet service providers.

The third and final test is that of reasonableness. This test allows the Court some further discretion. In *Zippo*, the Court found its taking of jurisdiction reasonable.

provincial long-arm jurisdiction

Provincial laws permit local Courts to take jurisdiction over foreign defendants. In practice, and under the leading cases, the Court will accept the Plaintiff's choice of action in a Province against a foreign defendant if, in general, there is a real and substantial connection between the complaint and the Province.

Interestingly, in *Easthaven Ltd.* v. *Nutrisystem.com Inc.,* [2001] O.J. No 3306 (Ont. S.C.J.) the Court in Toronto applied the U.S. test in finding that it did not have jurisdiction over the foreign Defendant. The Plaintiff was a Barbados company. The Defendant had main offices in Pennsylvania. The Plaintiff argued that the Defendant had registered a domain name using a Registrar whose Head Office was in Toronto. The Court found that the Defendant had not purposely availed itself of arrangements to do business in Ontario merely due to that registration.

It is submitted that the use of the U.S. three-part test (or at least the approach it provides) by Courts of the Provinces is likely since its general ideas are consistent with the Supreme Court of Canada's reasons in the leading case *Morguard Investments Ltd.* v. *De Savoye,* [1990] 3

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"...Different results should not be reached simply because business is conducted over the Internet..."

—McLaughlin, J., in *Zippo Manufacturing Company* v. *Zippo Dot Com, Inc.* (1997) 952 F. Supp. 1119

may 2002

S.C.R. 1077. This case is famous for setting the "real and substantial connection" test for taking jurisdiction over a foreign Defendant. There is also the Supreme Court of Canada case of *Moran* v. *Pyle,* [1975] 1 S.C.R. 393 (Saskatchewan, a satisfactory jurisdiction over an Ontario Defendant which placed its light bulbs into the stream of commerce flowing into Saskatchewan but had no business, property or salesmen there).

trade-mark infringement

A key question in any infringement case, in Canada or the U.S., is whether the Defendant has "used" the word, design, phrase or combination thereof, as a trade-mark. In Canada, the *Trade-marks Act* delineates between use of a mark for services, and use of a mark with products. The difference is key. It is generally thought that the test for use with services is a much more flexible test than that for products.

The recent series of *Pro-C* decisions (*Pro-C Limited* v. *Computer City, Inc.*, (2000), 7 C.P.R. (4th) 193 (Ont. S.C.J.); rev'd (2001), 55 O.R. (3d) 577 (C.A.) dealt with a Plaintiff's claim for trade-mark. The Superior Court Judge awarded damages of $1.2 million to a small business in such a case. The Court of Appeal overturned the trial judgment.

The Court of Appeal's finding turned on the narrower definition of "use" on products. The Defendant was a large U.S. based electronics store. It sold computers under the exact mark ("Wingen") that had been used by the Plaintiff as the name for computer software for use in writing (other) software programs. The Plaintiff owned a Canadian registered trade-mark for "Wingen."

The *Trade-marks Act* defines what activities constitute use of a trade-mark on products and on services. The *Act's* definition of use on products requires displaying the mark on the products themselves or product containers (or otherwise displaying the mark when the product is sold). The mark must be displayed at the same time as the product is sold. The Defendant's conduct did not qualify. It had a "passive" website displaying the mark, only. The Defendant had not sold computers in Canada bearing the mark. Its offering "1-800" style technical support on its website, did not constitute "use" on products under the definition in the *Act*.

conclusion

Had the Defendant in *Pro-C* used the mark on computer-related services, the Court of Appeal may have upheld the trial judgment. Further the Court of Appeal found that there was not use because there was no transfer of ownership on "that medium" (website). It is not required that the display medium equal the "ownership-transfer" medium. Use of marks on web sites, along with schemes for selling products long-distance, could be caught by the *Trade-marks Act*.

The combination of State and Provincial laws for "long-arm" jurisdiction and the rising likelihood of trade-mark infringements (and other causes of action) over the Net, particularly where services are sold on the Net, will give rise to legal claims in far-away places. The personal liability of corporate directors or senior officers for trade-mark infringements committed by the companies they direct (particularly in the U.S.) is a further concern. Any Canadian business with an Internet presence is wise to seek an "ounce of prevention." This could come in the form of insurance, caution in entering into business contacts with American parties, and in exercising higher standards of intellectual property due diligence before marks are used on the Net.

—Neil Kathol

This article was previously published in the November 2001 issue of Lawyers Weekly.

In Canada, the *Trade-marks Act* delineates between use of a mark for services, and use of a mark with products. The difference is key.

verbatim

"It is no disrespect to Lord Diplock to suggest that at least to some extent he poured some fine old whiskies into a new bottle, skilfully refined the blend, brought a fresh clarity to the result, added a distinctive label, and voilá "purposive construction"."

—Sopinka, J. in *Camco Inc.* v. *Whirlpool Corporation 2000* SCC 67 (the leading Canadian case determining the scope of the exclusive rights of a patent owner, where the article alleged to infringe does not literally respond to the device claimed in the patent).

Securities Law Update

proposed private placement changes

The term, "private placements" refers to the sale of securities under an exemption from the standard requirements to register the dealer undertaking the sale, or the requirement to issue a prospectus reviewed by the appropriate securities authorities, in order for a trade to be legally made.

Currently, there are a number of these exemptions available under the *Alberta Securities Act* (the "*Act*"). Most are included at sections 107(1) of the Act or section 122 of the Rules under the Act.

proposed new or revised exemptions to prospectus requirements

As of November 2001, Ontario adopted new private placement exemptions based more on the U.S. model. Alberta and British Columbia are now close to implementing similar revised rules. Many of the exemptions most commonly relied upon in Alberta will be removed if and when the new rules are implemented. Revised exemptions could come into force in Alberta (and British Columbia) as early as April 2002.

proposed private issuer exemption

This revised exemption will be similar to the current concept of exempt trades by a "private issuer," but will include a new concept of "designated securities." This proposed change will impact companies that are not "reporting issuers," whose "designated securities" are subject to transfer restrictions (usually found in a company's Articles), are not held by more than 50 holders (exclusive of employees) and have not distributed such "designated securities" to anyone other than "permitted purchasers."

Permitted purchasers include a company's directors, officers, control persons and employees, as well as certain classes of people in "specified relationships." Persons in specified relationships include those with a close relationship with a principal of the company such as family members, close friends or business associates. This group also includes accredited investors, or others not considered members of the public.

The new rules will clarify what is meant by public and not public. The meaning of "not a member of the public" has been a gray area, but the new rules will contain guidance. For example, existing shareholders of an issuer will be deemed not to be members of the public with respect to that issuer. This rule will not only permit sales of securities by an issuer to permitted purchasers, but also will allow permitted purchasers to thereafter trade amongst themselves. No Offering Memorandum will be required and no report will need to be filed with regulators for such trades.

This rule will be tied to "designated securities." For example, if an issuer's common shares are designated securities, it could sell non-designated securities (e.g. debt instruments) to the public without jeopardizing its entitlement to continue to use this exemption for its common shares.

> the Securities Commissions of Alberta and British Columbia will be adopting a more common sense, simple approach ... the rules are easier to understand and should be less difficult for issuers to comply with...

family, friends and business associates exemption

This proposed change will be similar to the current exemption it will replace, but now only includes the close family (one degree of separation), close friends and business associates of directors, officers and control persons of an issuer. The old rule extended the exemption to persons associated with an issuer's "promoters," but promoters will be removed from this exemption and dealt with separately. There will be no limit on the number of purchasers or the funds which can be raised using this exemption (which currently apply). However, issuers must keep in mind that too many non-employee purchasers will jeopardize its entitlement to rely on the private issuer exemption, if applicable.

As with the new Private Issuer Exemptions, permitted purchasers will be allowed to trade freely amongst themselves and no Offering Memorandum will be required and no report of the trade will need to be filed with regulators.

offering memorandum exemption

The proposed changes are similar to Alberta's "seed capital exemption," except that there will be no limit on the number of purchasers, provided each purchaser receives an Offering Memorandum in the proper form. In addition, there will no longer be a time limit on the offering or minimum time between offerings under the revised rules, so long as the Offering Memorandum is updated. Unlike the current exemption, purchasers need not be "sophisticated."

New Offering Memorandum forms are proposed: either a full form for "Non-Qualifying Issuers" which will be available to any issuer, or an abbreviated form for "Qualifying Issuers" which will effectively be limited to public companies (or, more formally, "reporting issuers") which are up to date with their continuous disclosure obligations.

It is proposed that each Offering Memorandum, all updates and forms to report trades made under this exemption will have to be filed with regulators, which is consistent with current practice.

accredited investor exemption

This appears to be the most significant proposed change. A specific investor's ability to bear risk will no longer be measured by the amount of money invested ($97,000 in Alberta, $150,000 in most other Provinces), but instead by the financial resources of such investor. It is proposed that "accredited investors" must be corporations with over $5 million in assets or individuals who (together with their spouse) have liquid assets of more than $1 million or annual pre-tax income over $300,000 ($200,000 if single) in the last two tax years and reasonably expect to exceed this level in the current year. Certain investors, such as governments and financial institutions which are currently "exempt purchasers," will continue to qualify. No Offering Memorandum will be required, even if there has been advertising to accredited investors (another change). Reports of trades will have to be filed when relying on this exemption, which mirrors the current rules for the "$97,000 exemption."

impact of proposed changes

All in all, there are few significant changes to current practices other than the new test for accredited investors and greater clarity on "private" vs "public" trades. The permission for trading amongst an issuer's existing shareholders, a concept expanded from the current "seed capital exemption," is also significant—this should provide holders of a private issuer's securities more (although still limited) liquidity than they currently enjoy. All in all, the Securities Commissions of Alberta and British Columbia will be adopting a more common sense, simple approach to the regulation of private placements. The rules are easier to understand and should be less difficult for issuers to comply with, without having to check with their professional advisors on every trade. Also, by the proposed harmonizing of these rules in both Alberta and British Columbia, it should make raising funds by way of a concurrent offering of securities in both Provinces easier.

—*Kyle B. Scott* and *Son D. Tran*

If your firm is considering issuing securities in this changing regulatory landscape, please contact either Kyle B. Scott (403) 260-5320 or Son D. Tran (403) 260-5310 of our Calgary offices for more information.

the Tech G

The Brownlee Fryett Tech Group, one of the largest groups of IP professionals in Calgary, offers responsive and thorough service to clients in the technology industries including in the following areas: patent and trade-mark seaches and filings for Canada, the U.S. and elsewhere; intellectual property litigtion; securities law including cross-border financing, licensing, joint ventures, trade-secret agreements; employment law, and breach of confidence litigation. Regarding clients referred to us by other law firms, we restrict our services to the original retainer.

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