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Patent Primer

by Heather Mueller, Patent Agent

What is a Patent?

A Patent is a business tool acquired by a company to exert a degree of control over a technology. Specifically, a patent enables the owner to prevent unauthorized parties from making, using or selling the patented invention.

In requesting the grant of a patent, the applicant essentially makes a bargain with the Patent Office. That is, in exchange for disclosing the invention to the public in a defined form (i.e. the detailed description provided within the patent), the applicant is granted a monopoly to the invention that is definite in both scope (i.e. defined by the claims of the patent) and term (generally 20 years from the filing date of the application). In this way, inventors are rewarded for making their inventions available to the public.

The Patent Office examines each patent application and negotiates the scope of the claims with the Applicant. This prosecution process typically takes 2-5 years, and attempts to strike an appropriate balance between the rights of the applicant to obtain a monopoly, and the pre-existing rights of the public to use technology and knowledge that was available to them before the applicant requested the monopoly.

Requirements for a Successful Patent Application

Therefore, once a patent application is filed, the Patent Office conducts a search of the prior art—that is, the information readily available to the public—and determines whether the subject matter claimed in the patent application is new, not obvious and useful.

- **Novelty** – In order for an invention to be novel, the invention must not be available to the public prior to the filing date of the patent application. Any non-confidential communication or public use of an invention, including presentations, project or grant submissions, and even informal conversations or dissemination of preliminary drawings, may constitute public disclosure of the invention. While the Patent Office generally will not learn of these disclosures during patent prosecution, a failure to carefully consider these potential disclosures may result in patent validity problems should the patent ever be litigated. However, a grace period for prior public disclosure of the invention is provided in Canada and the U.S., such that a patent application may still be filed in these countries

Specifically, a patent enables the owner to prevent unauthorized parties from making, using or selling the patented invention.



within one year of a first public disclosure of the invention. In most other countries, a patent application will not be granted to an invention that was disclosed to the public prior to the filing date of the application. For this reason, it is strongly recommended that any discussions with third parties be subject to a non-disclosure agreement.

- **Obviousness** – A patent will not be granted if the claimed invention would have been obvious to a person of ordinary skill in the art at the time the application was filed. This prevents minor, obvious improvements in technology from being patented, and therefore unavailable for public use. The risk that one's invention may be found obvious, and therefore unpatentable, is generally assessed by conducting a search of the prior art in advance of filing a patent application.
- **Usefulness** – The patent must describe an operable invention, and sufficient detail must be provided to enable a person of ordinary skill in the field to practice the invention.

Once the Examiner is satisfied the claims are of appropriate scope in view of the prior art, the application is granted. The resulting issued patent may then be enforced against infringing parties.

Inventorship

An important determination regarding patent protection involves the decision as to who will be listed as an inventor on the patent application. A strict definition of inventorship states that an inventor is someone who conceived the invention in its final form, as claimed in the issued patent. Each potential inventor must therefore be clear about what he/she has contributed intellectually to the invention, as financial or physical contributions alone do not result in inventorship.

Inventorship is a legal matter, not a collegial arrangement. Failure to list a true inventor on a patent may prevent enforcement of patent rights, so appropriate inquiries should be made in advance of filing a patent application to ensure proper determination of inventorship.

International Protection

Many applicants wish to maintain their ability to file patent applications in several countries during the development of their technology.

However, the applicant is not required to file applications in each individual country of interest immediately. The Paris Convention for Protection of Industrial Property provides that any person who files a patent application in a first member country, to establish a first filing date, will enjoy the right of priority of that date in respect of applications filed in other member countries within twelve months. That is, the applicant may file applications in any other Paris Convention country within twelve months, and claim the benefit of the first filing date for the subsequently filed applications.

Most applicants take advantage of the above-described right to priority. For example, a Canadian applicant would file a first application in Canada or the U.S., and then wait up to one year before filing applications in other countries. This deferral of filing in additional countries allows the applicant to further refine the invention, seek commercial partners, or start selling or using the invention prior to deciding which countries are of commercial interest for the purpose of securing patent protection in those countries.

An international patent application process exists under the Patent Cooperation Treaty ("PCT"), which enables an applicant to file a single application that designates over 140 countries. The international patent application (PCT application) never issues as a patent, but simply defers the timeline for filing applications in all PCT member countries by 18 to 42 months, depending on the specific circumstances. In addition, while the international patent application is pending, the applicant will receive a preliminary examination search and report from a designated patent office, which may provide insight regarding the eventual prosecution of the patent application. Once the International Phase of the PCT is complete, the applicant must file applications in various jurisdictions to secure protection in those countries of interest.

It should be noted that there are exceptions to the strategies noted above. For example, some countries are not party to the Paris Convention or the PCT and the above-noted strategies are therefore not applicable in those countries. Accordingly, a patent strategy should be developed in advance for each technology, to determine which countries might be of interest, and to determine how to preserve patentability in those jurisdictions.

Phonebook for the Internet

by Kevin Tuohy

Introduction

On December 3 2008, a new generic top level domain (“gTLD”) was launched that intends to serve as a phonebook for the Internet. The new .TEL gTLD is the first global, mobile-optimized online directory, using a domain name system to function as a repository for all contact information of a company or an individual. In other words, it will serve as a way to easily manage and distribute contact information over the Internet. .TEL domains will securely store and automatically update information for recipients, and will work with any device that connects to the Internet. Recipients can enter the .TEL domain into their computer or PDA and automatically have access to all of the contact information.

The launch of .TEL has included three distinct periods: (i) the sunrise period (December 3, 2008 to February 2, 2009), where owners of trade-marks registered before May 30, 2008 may apply for a .TEL domain name matching their trade-mark; (ii) the landrush period (February 3, 2009 to March 23, 2009), where registration is open to the public on a first-come first-served basis at a premium price; and (iii) general availability (March 24, 2009).

The .TEL domain began the “go-live” process on March 6, 2009.

Telnic Limited¹, describes the purposes and advantages of .TEL domain names as follows:

- Create and Control your Communications Hub
- Join the Only, Real-Time, Global Directory- improve accessibility
- Effectively Route Customers to appropriate Departments and Locations

- Increase Online Discoverability
- Connect with your Customers from any Device
- Gain an Effective Mobile Presence
- Live Update Anytime, Anywhere
- Incorporate Premium Numbers for Voting and Betting Services
- Generate Advertising and Sales Revenue under Generic Domain Names
- Drive Traffic to E-commerce Storefronts

Despite its purported technical and practical benefits, there are hints that the .TEL gTLD may struggle to gain widespread notoriety or use, as have many new gTLDs in the past. The key question will be whether there is a critical mass of registrants to support the initial investment in the registry. Such a mass of registrants may not be achieved if software applications supporting and using the platform do not become widespread, and if it becomes difficult to register .TEL domains with precise and desired names or trade-marks. Underlying these risks is of course the ever-present risk of abusive use of the new gTLD, with spammers using the launch as a new platform for obtaining personal and business information and sending unsolicited information to contact points listed on the .TEL domain. The highly specialized nature of the .TEL gTLD could either serve it well or result in the new gTLD following others down the path to obscurity.

Footnotes

¹ for more information visit www.telnic.org



Our Shrinking World

Strategic Approaches to Jurisdictional Risk Management

by James T. Swanson

Introduction

Until comparatively recently, geographic and political boundaries restricted contact and interaction between organizations and individuals. Communication was slow and, subject to the telegraph and later the telephone, communication generally meant moving tangible materials such as paper documents. Products were tangible goods and services and tended to be provided and received locally. With the advent of the Internet and other technologies, we have increasingly moved away from transporting information in tangible form and replaced that with the transfer of

information via digital means, by bits moving at near light speed. Services may now be provided and received anywhere and any time.

Now, contacts and interaction are largely unrestricted by barriers of geography, space, time or national boundaries. Communication is fast, cheap and easy, and interaction with foreigners, and their legal systems, equally easy, and virtually inevitable. Interaction between human and machine is increasingly commonplace.

Now that you can “be” in China or Chile without leaving your chair, what is your exposure to the legal systems of those countries, or any other countries you may virtually visit

or do business in? What is the exposure of the parties you deal with to Canadian laws and our courts? It may not even be you — it may be your “intelligent agent”, software programmed to interact with your customers while you do something else.

Exposure to Foreign Liabilities and Claims

You may feel safe and think you cannot be subjected to legal processes in far off lands, but you may well be wrong. There are many cases of enforcement of foreign money judgements in Canada by our own courts against Canadian

businesses. Accordingly, a Canadian business that has been sued in another country needs to consider the nature of the connection between the Canadian business and the foreign party or parties, the subject matter of the action and the specific foreign jurisdiction. Ignoring foreign lawsuits is rarely advisable and legal advice of both Canadian counsel and counsel in the other jurisdiction should be obtained.

If there is any chance of a judgment in the foreign court being enforced in Canada, the Canadian business in most cases should challenge the jurisdiction of the foreign court and defend the action if necessary.

Once a foreign judgment has been brought to Canada for enforcement, the Canadian defendant rarely, if ever, has an opportunity to open up the judgment and litigate the issues again. Since at least 1992, and the cases of *Morguard Investments Ltd. v. De Savoye*¹ (“*Morguard*”) and *Hunt v. T&N PLC*² (“*Hunt*”), the general rule in Canadian courts with respect to such foreign judgments is that, absent things such as public policy considerations, fraud or breach of natural justice, the flow of people, skills and wealth across borders and over multiple jurisdictions means our courts cannot and do not conduct themselves in isolation and such judgments may be enforced in Canada.

Foreign judgment holders wishing to enforce a judgment within Canada (leaving aside any treaties or other arrangements for reciprocal enforcement or recognition of judgments that may exist) can seek advice on the laws of the province in which the motion to enforce will be heard. The *Morguard* and *Hunt* cases leave the issue of enforcement to a case-by-case determination of order and fairness. Foreign judgments conflicting with essential morality or fundamental justice will not be enforced. Note that the legal systems of the United States, the U.K., Australia and other common law countries are quite close to ours, so judgments from those jurisdictions may in general be more likely to be recognized and enforced in Canada.

Enforcement means you do not get to open up the case and litigate it again. Subject to the foregoing, the judgment will be registered and enforced in the same manner as a locally obtained judgment—seizure and sale of assets, garnishee, etc.

Foreign Orders Other than Money Judgments

Until recently, non-money judgments such as injunctions from foreign jurisdictions were generally not enforced here. However there

has been a suggestion from our highest court that in the right case such an order might be enforceable

In *Pro Swing Inc. v. ELTA Golf Inc.*³, the Supreme Court of Canada (“SCC”) stated that the traditional common law rule that limits the recognition and enforcement of foreign orders to final money judgments should be changed.

ELTA Golf carried on its business in Ontario, offering products on its website that were found to infringe trade-mark rights of Pro Swing in the United States. Pro Swing sued ELTA in Ohio, and ELTA made an appearance. The parties settled the lawsuit and a consent judgment including things such as delivering up infringing products was entered in Ohio against ELTA. Later, ELTA was allegedly not complying with the Ohio judgment. The Ohio court found ELTA in contempt of Court and ordered ELTA to, among other things, account for all infringing products sold and profits earned, to pay damages in compensation to Pro Swing, to turn over contact information for all purchasers and to recall all infringing goods.

Pro Swing took a swing north to Canada and sought to enforce the Ohio court’s orders in Ontario. ELTA, threatened on its home turf, appeared to oppose (*golf puns intentional*).

The concern with foreign non-money judgments is that Canadian residents should not be subject to unforeseen obligations imposed in a foreign court. Our justice system should not be used in a manner unavailable in Canadian litigation. The SCC declined to enforce the Ohio orders against ELTA in Ontario but indicated that, in the right case, such orders from a foreign court might be enforceable.

Canadian Jurisdiction over Foreign Parties

Issues of jurisdiction between Canadian provinces are similar to those arising in the international setting, and the same or similar principles apply.

In 2002, the Ontario Court of Appeal in *Muscutt v. Courcelles*⁴ (“*Muscutt*”), permitted an Ontario resident, injured in motor vehicle accident in Alberta, to sue the Alberta party in Ontario for damages for personal injury sustained in Alberta. The court reviewed the law in this area, including an interesting review of the manner in which U.S. courts handle such issues, and noted that there are 3 ways in which jurisdiction may be asserted against an out of province defendant:

- Presence-based jurisdiction where the defendant is physically present in Ontario

- Consent-based jurisdiction, such as a provision in a contract agreeing to submit to the jurisdiction of the court (so read those contracts carefully), or by appearing in the jurisdiction and defending the action; or
- Assumed jurisdiction, where some provision of Ontario law allows jurisdiction to be assumed.

If more than one court is capable of taking jurisdiction as the forum to hear a dispute, the Canadian courts will generally look for the most convenient forum (applying a doctrine known as *forum non conveniens*), based on factors such as:

- Location of majority of the parties
- Location of key witnesses and evidence
- Contractual provisions
- Avoidance of multiplicity of proceedings
- Applicable law and its weight in comparison to the factual issues
- Geographical factors
- Whether declining jurisdiction would deprive a plaintiff of legitimate juridical advantage available

Applying the “real and substantial connection” test to the proposed forum prevents a court from unduly entering into matters in which the jurisdiction in which the court is located has little interest. In addition, the doctrine of *forum non conveniens* gives the court discretion to refuse jurisdiction where there is a more convenient or appropriate forum elsewhere. In *Muscutt*, the plaintiff had to do more than allege damage suffered in the forum; there had to exist a substantial connection between the defendant and Ontario.

In this case, the claim was for pain and suffering that occurred in Ontario, even though the causal injury was sustained in Alberta. The Ontario court assumed jurisdiction for the case.

In 2005, in the case of *Burke v. NYP Holdings, Inc.*⁵, a resident of B.C. sued the New York Post in British Columbia for defamation based on publication of an article made available world-wide by the Post on a website.

The B.C. Court took jurisdiction over the case, noting that there was a real and substantial connection with the province, that it was foreseeable that the article on the website would be read in B.C. (where the plaintiff was located), and that B.C. was the most convenient forum. The witnesses were there, Burke alleged damage to his reputation there; it would be very expensive for Burke and the witnesses to travel to New York (where he had little connection).

The B.C. Court was best suited to assess damages to reputation sustained in the province and it would be unfair to require Burke to clear his reputation in New York under American defamation standards (which would be less favourable).

However, the law in this area is hardly clear. In 2006, in *Desjean v. Intermix Media, Inc.*⁶, a Canadian plaintiff sued a Delaware corporation with offices in Los Angeles, alleging violation of the *Competition Act*⁷ by bundling adware and spyware with free software available for download. The Federal Court of Canada, upheld on appeal, dismissed the plaintiff's case on the basis that the defendant could not reasonably expect to be sued in Canada under the *Competition Act*. Jurisdiction cannot be founded simply upon the fact that the plaintiff was in Canada when he downloaded the foreign content that allegedly caused him to suffer damages.

Whether the Internet presence of a non-resident can constitute a real and substantial connection with a Canadian court depends on the character of the website. Is it passive, just advertising or promoting, or making some type of content available, or is it more active, being used to interact with Canadians? In this particular case, there was no sufficient connection because:

- The defendant had no servers in Canada;
- The impugned website was not hosted in Canada;
- The defendant has never had employees or offices in Canada;
- The defendant has never availed itself of Canadian laws;
- There were no bank accounts in Canada;
- No taxes were paid in Canada; and
- There was no direct advertising, marketing or solicitation aimed at the Canadian market.

Regulatory Jurisdiction

Governments around the world regulate commerce and business. For a Canadian business with online or foreign activities, the business needs to determine where the risks of non-compliance with such regulations lie, and how the benefit of Canadian laws can be applied to foreign parties.

Unlike the use of contracts between parties in multiple jurisdictions to bind themselves to particular governing laws and jurisdictions to be the forum for dispute resolution, it is generally not possible to contract out of exposure to foreign regulations, or, by the foreign party, to those of Canada or a province. Legislation and regulations can attempt to be very "long arm" indeed.

For example, *Alberta's Internet Sales Contract Regulation*, passed under the *Fair Trading Act*⁸, applies to Internet sales contracts with consumers in the following circumstances:

- a contract in which the supplier or consumer is a resident of Alberta; and
- a contract in which the offer or acceptance is made in or is sent from Alberta.

If you are an Alberta business covered by this regulation, it applies to dealings between you and your customers anywhere in the world. Since you are here, it will be easy to enforce it against you. It also applies to any business anywhere in the world that deals with a consumer resident in Alberta. Enforcing the regulation against a foreign entity will not be so simple, but at least the consumer can exercise his or her right to void sales contracts in certain situations. It would then be difficult, and likely impossible, for the foreign business to enforce any rights against that consumer in Alberta where doing so would be contrary to Alberta law.

As another example, in the *Society of Composers, Authors and Music Publishers of Canada v. Canadian Assn. of Internet Providers*⁹, the SCC noted that applicability of the *Copyright Act*¹⁰ to international communications will depend on whether there is a sufficient connection between Canada and the communication for Canada to apply its laws consistently with principles of order and fairness. To occur in Canada, a communication need not originate from a server in Canada. Relevant factors could include the location of the content provider, the host server, any intermediaries and the end user. The weight to be given to each of these factors may vary. There is no immunity to a content provider merely by maintaining a server outside of Canada. Parliament's power to legislate with extra-territorial effect is well settled.

U.S. Jurisdiction over Foreigners

The approach in the U.S. courts is not all that different to that here in Canada.

In *Melaleuca v. Hansen*¹¹, the plaintiff sued non-resident individuals under the "Can-Spam Act" (*Controlling the Assault of Non-Solicited Pornography and Marketing Act*, 2003). The Court noted that federal due process requires that a non-resident defendant have minimum connections with the forum of such nature that personal jurisdiction over the defendant does not offend traditional notions of fair play and substantial justice. There is a three-factor test to be applied:

- The non-resident defendant must do some act or consummate some transaction with the forum state or perform some act by which it purposefully avails itself of the privilege of conducting activities in the forum state, thereby invoking the benefits and protection of its laws;
- The claim must arise out of or result from the defendant's forum-related activity; and
- The exercise of jurisdiction must be reasonable.

In Kentucky, last October, a Franklin County Circuit Court judge¹² permitted seizure by the state, under its anti-gambling laws, of the domain names of 141 online gambling sites (including, for example: wildjack.com, worldwidevegas.com, etc.). The domains were seized as they were considered to be illegal "gambling devices". Attorneys appeared in the Kentucky court without naming their clients but were ordered to disclose their identities.

The case was appealed and, in January, 2009, the Kentucky Court of Appeals¹³ overturned the order, saying that the domains were not gambling devices and "[I]t stretches credulity to conclude that a series of numbers, or Internet address, can be said to constitute a "machine or any mechanical or other device... designed and manufactured primarily for use in connection with gambling."

Selected Strategies and Tactics to Manage Jurisdictional Risk

As you can see, the law in this area is complex, unsettled and not particularly clear. To manage jurisdictional risk, one should consider one's activities online and in foreign jurisdictions carefully to determine and manage one's exposure to both sufficient presence to be subject to the foreign jurisdiction, and to possible breaches of its laws. As one can see from the gambling device case, the courts can be creative.

Disclaimers and jurisdiction, governing law and forum clauses in one's agreements can be important and useful but are not an absolute defence by any means. Following are some things to consider in contracting:

- Disclaiming any operation in a specific jurisdiction only works if the facts fit the disclaimer;
- It may be impossible to contract out – The *Personal Information Protection Act*¹⁴ (Alberta) and *Alberta's Internet Sales Contract Regulation* are good examples of legislation or regulations that prohibit doing so. Foreign laws may have similar effect;

- Consumer contracts are problematic—some jurisdictions will not enforce disclaimers against individuals at all, or may limit enforcement significantly;
- An agreement to litigate in jurisdiction X but never in jurisdiction Y is still subject to other questions, such as *forum non conveniens*, by the court considering jurisdiction—simply put, the contract may be persuasive but cannot bind a court’s discretion and final say on the matter;
- Totally unreasonable disclaimers may be less successful than something more reasonable; and
- One may manage jurisdiction by submitting to one jurisdiction to avoid another. Be careful what you wish for.
- Choice of language may pull one into a foreign jurisdiction, or one’s failure to use another language may be a breach of foreign law (or, in the case of French, of the laws of Québec, for that matter).
- Locally focused content in a foreign jurisdiction may also pull you in.
- One may want to require registration with some authentication of an acceptable location of the other party (for example, credit cards can act as a filter to determine locale).
- The location of one’s website server is a possible factor.
- Domain names such as country codes may pull one in to a jurisdiction. Some countries restrict use of those, such as Canada with its presence requirements to obtain a .ca domain. Many other countries are open to anyone. Just because one can use .cn (China) or .nl (Netherlands) does not mean it is a good idea—it can be *prima facie* proof of some sort of presence in the country in question.
- Click-through terms and conditions are preferable to web wrap (simple posting of terms with no requirement to “sign” or confirm acceptance in some fashion).
- Consider the effect of the *Electronic Transactions Act*¹⁵ (Alberta) and equivalents in other jurisdictions. Many countries have implemented laws concerning online and electronic contracting so, if one wants to form a valid and binding contract, know the rules.
- Consider arbitration, perhaps online, as a dispute resolution mechanism to avoid foreign court systems.
- Note that properly drafted forum selection clauses are treated with a measure of deference by Canadian courts, and by courts in many other jurisdictions as well, so forum selection clauses should be treated the same as arbitration agreements as they are fundamentally similar.
- On the other hand, keep in mind that other jurisdictions may have differing views than Canadian courts so it is wise not to assume anything without proper investigation.
- If it looks bad and one is about to be, or are, sued somewhere else, consider proactive tactics such as an application in one’s home jurisdiction for an injunction or declaration preventing enforcement of any foreign judgment. Yahoo! has used this as a tactic.

In doing business online, keep in mind the following:

- Real and substantial connection—how connected to other provinces, states or countries are your online activities? Do you know “where” you are? Do you know how many jurisdictions you are “in”? It may be more than you think—north of the Rio Grande River in this continent alone are 2 federal governments, 50 states (counting Hawaii), 10 provinces and 3 territories—total, 65!
- Purposeful availment – are you somehow taking advantage of the laws of another jurisdiction such as a U.S. state?
- Contractual terms can be helpful so use them, but be aware that contractual limitations have, well, limitations.

Footnotes

- ¹ [1990] 3 S.C.R. 1077
- ² [1993] 4 S.C.R. 289
- ³ [2006] S.C.J. No.52
- ⁴ [2002] O.J. No.2128 (C.A.)
- ⁵ 2005 BCSC 1287
- ⁶ [2007] 4 F.C.R. 151
- ⁷ R.S.C. 1985, c.C-34
- ⁸ R.S.A. 2000, c.F-2
- ⁹ [2004] 2 S.C.R. 427
- ¹⁰ R.S.C. 1985, c.C-42
- ¹¹ Idaho District Court Case Number 1:2007cv00212
- ¹² *Interactive Media Entertainment & Gaming Association v. Honorable Thomas D. Wingate*, Franklin Circuit Court Action No. 08-CI-01409.
- ¹³ *Interactive Media Entertainment & Gaming Association v. Honorable Thomas D. Wingate*, Commonwealth of Kentucky Court of Appeals, No. 2008-CA-002000-OA.
- ¹⁴ S.A. 2003, c.P-6.5
- ¹⁵ R.S.A 2000, c.E-5.5

Copyright Reform Update by Kevin Tuohy

BD&P’s February 2008 Intellectual Property & Technology Newsletter provided a summary of pending Canadian copyright reform and promised a follow-up in a future edition. There is very little to report.

By way of background, the Conservative government introduced the proposed new legislation as Bill C-61 (An Act to amend the Copyright Act) on June 12, 2008,

Bill C-61 is an attempt to update Canada’s copyright rules and satisfy Canada’s obligations under the World Intellectual Property Organization Treaty. It deals with digital copying of content, and permissions for copying media such as music, books and photographs. Bill C-61 is supported by entertainment industry groups and copyright holders, and widely criticized by consumers and consumer rights advocates, largely for its anti-circumvention provisions which would allow for digital locks on content.

Although a second reading of Bill C-61 was expected in the Fall of 2008, it has remained off the table, for a number of reasons, most of which related to the onset of a Canadian political maelstrom in September 2008. Although the Conservative government survived the October 14, 2008 election call, they were presented with another hurdle in December 2008, when a coalition of the Liberal Party, new Democratic Party and Bloc Quebecois sought to topple the Conservatives on a vote of non-confidence. Parliament was prorogued, which effectively avoided a vote of no confidence in December, and ultimately the Liberal Party’s conditional acceptance of the conservatives’ January 2009 budget staved off a Conservative defeat.

In short, the Conservatives have had a few other things on their agenda since tabling Bill C-61. There has been no specific indication from the government as to when the matter will re-surface, although election campaign promises in October 2008 suggested that the re-tabling was imminent. We will continue to monitor the progress of Bill C-61 in future Newsletters.

NEW GENERIC TOP LEVEL DOMAINS

Domain Name Gold Rush & the “.Trade-mark” Nightmare

by Kevin Tuohy



In June 2008, the Internet Corporation For Assigned Names and Numbers (“ICANN”) approved a new regime for obtaining generic top level domains (“gTLDs”), which would effectively open the floodgates, causing a massive wave of new gTLDs. The new regime, with the onslaught of new gTLDs that will likely accompany it, is not without its critics. In fact, in February 2009, ICANN took steps to address the mounting concerns by releasing a document that describes and analyzes the various concerns, and delayed the projected timeline for taking applications for new gTLDs from September to December 2009.

Instead of being limited to registering second level domain names (for example, the “bdplaw” portion of www.bdplaw.com) under one of the 21 currently existing gTLDs (such as .com and .org), new applicants will in theory be permitted to register, own and operate their own gTLDs with any string of characters, which could include names of corporations, generic names, geographic names and non-roman characters. The result would be that such an applicant could either use or sell second-level domain names under its own gTLD. There will be an evaluation and approval process in place to analyze technical and financial considerations, existing legal rights and morality and other factors.

The President and CEO of ICANN has been quoted as saying that the new regime gives rise to a massive increase in the “real estate” of the Internet. Arguably, this provides greater opportunity for marketing and brand exposure. However, along with this expanded real estate comes significant concern relating to trade-mark rights, brand protection, cost, as well and Internet security and stability.

The new process will make it essential and incumbent upon the owners of trade-marks to diligently monitor new gTLD applications, along with second-level domain name applications under each new gTLD, to prevent infringement.

The process will give rise to a dramatic increase in the potential for trade-mark infringement, either through gTLDs (such as .cocacola), or second-level domains (such as cocacola.alberta). There will be a procedure in place for owners of trade-marks to object to new gTLD applications, but the implications for trade-mark and domain name management are significant. It is possible that some of the new gTLD launches will include the “sunrise periods” that have been utilized in launches of recent gTLDs such as .eu and .asia, but it does not appear that such a procedure will be required under the new regime. New gTLD launches may also put contested domain name claims to auction.

In addition to requiring diligent monitoring efforts, the new regime will make it potentially important for trade-mark owners to apply for defensive registrations of second-level domain names in each new gTLD, as well as registering entire new gTLDs to protect their brands and to prevent confusion in the marketplace.

Other trade-mark implications must be considered as well, including the use of geographic names as new gTLDs. It is possible that government approval will be required for new gTLD applications containing the geographic name of that government. However, the issue of overlap between geographic names and trade-marks does not appear to have been addressed. For example, Kathmandu could be considered a geographic name or a brand name (for backpacks and outdoor gear), and Newcastle could be considered a geographic name (in numerous countries), or a brand name (for beer). Furthermore, the issue of geographic regions, such as “Rocky Mountains” or “Acadia” may also give rise to conflict and uncertainty.

Cost is an issue as well, with registrations initially set at \$185,000 plus yearly maintenance fees of \$75,000; however, there are recent indications that ICANN will reduce the annual maintenance fees to \$25,000.

ICANN is attempting to deal with many expressed concerns through the release of its February 2009 document and by commissioning numerous studies to examine more thoroughly the implications of the new regime. These studies are intended to address the specific effects of expanding gTLDs, including the economic dynamics of the domain system generally (including price caps for registration costs and renewal fees), to seek advice on what to do about the significant trade-mark concerns and to study the demand for new gTLDs and issues surrounding Internet security and stability. ICANN has not provided specific information on how it will deal with trade-mark issues, other than suggesting that it will work with various intellectual property organizations to determine ways to avoid what will certainly be thousands of defensive registrations.

Given the scope and significance of these potential problems, it is at times difficult to understand the rationale behind the new gTLD regime. In fact, the common cynical sentiment is that the regime is designed simply as a cash grab. However, costs aside, it is arguably the case that ICANN is attempting to fulfill its initial mandate, which included the delivery of a process of allocation of new gTLDs and a process for the fostering and creation of competition in the domain name space.

While the details of ICANN’s new gTLD regime are yet to be resolved, and the timing for doing so is uncertain, it is clear that the domain name landscape is imminently shifting in a fundamental way. The result is that trade-mark and brand owners must similarly shift their focus in a fundamental way. Domain name strategy will become essential, and the current struggle most trade-mark owners face in protecting and enforcing their trade-mark rights has become almost instantaneously and dramatically more complex. In many cases, the new regime will make it prohibitively expensive for trade-mark owners to register all variations of brand names in all gTLDs, and to adequately protect their brand.

Requirements for Franchises

by George Wowk

Alberta is one of the few provinces in Canada with legislation directed specifically to franchises—the *Franchises Act*¹. One of the more notable requirements under the *Franchises Act* is that the franchisor is required to deliver a Disclosure Document to each potential franchisee.

The intention of the Disclosure Document is to provide sufficient information to the potential franchisee to enable the potential franchisee to make an informed decision as to whether or not to purchase the franchised business. The *Franchises Act* sets out the minimum information required in the Disclosure Document including prior litigation and criminal charges involving the franchisor or its officers or directors, the investment and financial requirements needed to purchase and operate the franchised business as well as any previous franchises that have closed. Another requirement is that the Disclosure Document must include a Certificate which has to be dated and signed by two directors or officers of the franchisor. The Certificate has to state that the Disclosure Document contains all material information.

Section 13 of the *Franchises Act* sets out that if the franchisor fails to deliver a Disclosure Document to a potential franchisee, the potential franchisee may later rescind the franchise agreement and the franchisor is required to compensate the franchisee for any losses that the franchisee may have suffered in acquiring, setting up and operating the franchised business. Consequently, the failure to deliver a Disclosure Document can have significant repercussions.

The application of Section 13 of the *Franchises Act* was considered in a recent Alberta Court of Appeal case entitled *Hi Hotel Limited Partnership v. Holiday Hospitality Franchising Inc.*² This case involved the purchase of a Holiday Inn hotel to be operated as a franchise. The franchisor provided the purchaser with a Disclosure Document, which included all of the required information as well as a Certificate. However, the Certificate had not been dated or signed as required by the *Franchises Act*.

In this case, the Court struggled with the significant repercussions that can result from what could be argued was a small oversight. Counsel for the franchisor argued that the franchisee was sophisticated and was in no way harmed by the defective disclosure—rather it was simply repenting on the deal, trying to use a technical defect as a basis to get out of the franchise agreement 11 months after the fact. The franchisee argued that it was neither sophisticated nor experienced but acknowledged that it was not in any way misled by the defective disclosure—in fact it admitted it had not even relied on the disclosure document in entering the agreement.

The Court found there were two interlocking issues arising from the debate; namely whether there should be a trial of fairness every time there was a breach of the legislation and whether the legislation should be read broadly or applied firmly.

The Court decided in favour applying the legislation firmly, finding that as result of the mandatory language of the disclosure provisions of the *Franchises Act*, the failure to have a dated and signed disclosure document



was fatal. The franchisee was entitled to rescind the agreement without establishing it was misled and without proving it had suffered damages as a result of the franchisor's failure to provide the proper Disclosure Documents. In other words, there is no disclosure as required by the legislation unless a signed and dated certificate is included in the Disclosure Documents. The franchisee was entitled to be compensated for any of the damages that it suffered.

The message in this case is that the *Franchises Act* sets out certain requirements with which the parties must comply or face significant potential consequences.

Footnotes

RSA 2000, c.F-23
[2008] A.J. No.892



BD&P Acquires Patent Agent

BD&P is very pleased to advise its clients that we have recently added Heather Mueller to our Intellectual Property & Technology Team.

Heather is a registered patent agent in both Canada and the USA, and has been involved in the field of patent portfolio management since 1999. Heather has worked with innovations in oil and gas equipment and processes, in the environmental and cleantech sectors, and in biotechnology, chemistry, engineering and business methods. With contacts around the globe, she is able to assist in the acquisition of patent rights in any jurisdiction of interest.

Adding depth to the existing Team, Heather's particular strengths will be in the following professional services and areas:

- Preparation, filing, prosecution and management of domestic and international patent applications
- Developing strategies for globally protecting and managing corporate technology within the context of our clients' corporate vision
- Evaluating competitor intellectual property rights and developing procedures and strategies to support our clients' business objectives
- Patentability and validity assessments
- Freedom to operate reviews for new products
- Due diligence in support of licensing, financing and acquisitions
- Industrial Design applications

Heather has a Bachelor of Science and Masters of Science from the University of Manitoba, is a Registered Patent Agent in Canada and the U.S. and is a member of the Intellectual Property Institute of Canada (IPIC) and the American Intellectual Property Law Association (AIPLA).

Heather can be reached at 403-260-0321 or hmueller@bdplaw.com

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