



# Intellectual Property Brief

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In this issue of *Intellectual Property Brief*, Matt Thurlow comments on the punitive damage awards in recent copyright and trademark infringement cases. Then Dean Melamed discusses statutory amendments to aid IP licensees. Mark Mitchell comments on a case dealing with the Federal Court's jurisdiction regarding actions under the *Industrial Design Act*, while Yasin Bismilla finishes by discussing expiry of the first patents issued under the 1989 amendments to the Canadian *Patent Act*, colloquially referred to as the "New Act".

## **Microsoft Corporation v. PC Village Co. Ltd. et al**



Matt Thurlow

The tide continues to turn against those dealing in counterfeit goods, as the Federal Court has once again awarded punitive damages in a case of infringement of intellectual property rights.

This recent decision follows up on earlier decisions in *Microsoft Corp v. 9038-3746 Quebec Inc.*; and *Louis Vuitton Malletier S.A. and Louis Vuitton Canada Inc. v. Lin Pi Chu Yung, et al.*, wherein the court awarded punitive damages against parties engaged in flagrant IP infringement. (These cases were referenced in the Spring 2008 edition of this publication.)

The defendants in the most recently decided court action were alleged to have engaged in the unauthorized sale of Microsoft software and associated unauthorized use of Microsoft trademarks through two computer stores in Markham and Toronto, Ontario.

Since 2000, Microsoft had made attempts to put an end to the defendants' infringing conduct. In 2005 and 2006, Microsoft conducted numerous investigations at the defendants' business premises and discovered what it alleged to be infringement of some 15 copyrighted works, and associated trademarks. Microsoft commenced an action in the Federal Court in respect of such allegedly infringing activities, seeking statutory damages of \$150,000 (i.e., \$10,000 for each of the 15 allegedly infringed software works), punitive damages in the amount of at least \$50,000, injunctive relief, and costs on a solicitor and client basis. Microsoft was successful on a motion for default judgment after the defendants failed to defend the action.

In assessing whether to exercise its discretion to award statutory damages, the court considered the factors listed in s. 38.1(5) of the *Copyright Act* and found that the award of statutory damages must be sufficiently high to reflect the bad faith and misconduct of the defendants, and to serve as a deterrent against further infringing activities. Accordingly, the court awarded the \$10,000 per work sought by Microsoft in respect of the 15 copyrighted works. The court also awarded \$50,000 in punitive and exemplary damages, as well as \$50,000 for costs against the defendants jointly and severally, for

a total award of \$250,000. The court also granted injunctive relief due to the defendants' continued and deliberate pattern of infringement.

This decision demonstrates the court's continued willingness to award significant damages and costs against

those dealing in counterfeit goods, reinforcing the message sent in the earlier *Microsoft* and *Louis Vuitton* cases.

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## Bankruptcy and Insolvency Amendments Aid IP Licensees, But Are They Enough?



Dean Melamed

With many companies going through financial trouble, there is a fear among licensees that they will lose their right to use licensed intellectual property ("IP") if the licensor becomes insolvent and wants to restructure.

Up until now there has been much uncertainty in the common law as

to whether an insolvent debtor may disclaim an IP licence agreement in a restructuring. Under the current version of the *Bankruptcy and Insolvency Act* (the "BIA") and the *Companies Creditors Arrangement Act* (the "CCAA") there are no provisions outlining when an insolvent debtor may disclaim an agreement, and what agreements may be disclaimed.<sup>1</sup> Fortunately, in 2007 Parliament made much needed amendments to both the BIA and the CCAA. As of September 18, 2009, these amendments came into force. Section 65.11 of the BIA

and section 32 of the CCAA now give statutory authority to an insolvent debtor to disclaim an agreement. However, fear not licensees, this power is constrained by subsection 65.11(7) of the BIA and 32(6) of the CCAA, which restrict an insolvent debtor from disclaiming an agreement which would affect a party's right to use an already granted licence

for IP. The section reads the same in both the BIA and the CCAA, as follows:

If the debtor [under the CCAA version the word "debtor" is replaced with "company"] has granted a right to use intellectual property to a party to an agreement, the disclaimer or resiliation does not affect the party's right to use the intellectual property – including the party's right to enforce an exclusive use – during the term of the agreement, including any period for which the party extends the agreement as of right, as long as the party continues to perform its obligations under the agreement in relation to the use of the intellectual property.

This subsection is great news for licensees, but it must be noted that it only applies in a proposal/restructuring situation. It does not apply in cases of bankruptcies or receiverships, and as such trustees or receivers will have to

resort to the common law to disclaim IP licence agreements, which is a whole other story.

*Amendments to the BIA and CCAA permit IP licensees to maintain licence agreements where the insolvent licensor is making a proposal/restructuring but not where there is a bankruptcy/receivership.*

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<sup>1</sup> *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 ; *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C.-36 .

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## Industrial Design – Jurisdiction of the Federal Court



Mark Mitchell

It is often beneficial to be a plaintiff rather than a defendant in an intellectual property dispute in the Federal Court. Procedural advantages and control of the pace of the proceedings will sometimes make prospective defendants take preemptive action.

In *Peak Innovation Inc. v. Meadowland Flowers Ltd.*, 2009 FC 661, the plaintiff received two

letters from defendant's counsel which it interpreted as alleging infringement of the defendant's industrial designs. Instead of waiting to be sued, the plaintiff instituted its own action in the Federal Court asking for, among other things, a declaration that the plaintiff's products do not infringe the defendant's industrial designs.

Defendant's counsel said that the interpretation of the letters was mistaken and that infringement was not alleged. One wonders what the letters did address if not that point. The defendant then sought to have the paragraphs of the Amended Statement of Claim seeking a declaration of non-infringement struck out.

In dismissing an appeal from the order striking those portions of the claim, the Federal Court affirmed that it has no jurisdiction to grant such declaratory relief in the absence of an action for infringement of industrial designs. Federal

Court jurisdiction is statutory and requires 1) an express statutory grant of jurisdiction by Parliament; 2) an existing body of federal law essential to the disposition of the case which nourishes the statutory grant of jurisdiction; and 3) the law of the case must be a "law of Canada" as used in s.101 of the *Constitution Act 1867*.

The portions of the *Industrial Design Act* that provide for causes of action do not establish a cause of action for a declaration of non-infringement. Sections of the *Federal Courts Act* and Federal Court Rules that provide that the Court has jurisdiction to address "any remedy" did not assist the plaintiff, as the Court held that jurisdiction for a remedy can only exist where jurisdiction for the underlying cause of action exists elsewhere in the statute. Since the cause of action (declaration of non-infringement) does not exist under the *Industrial Design Act*, the remedy cannot be granted, as the Federal Court has no jurisdiction to give it. The pleading was

*The Industrial Design Act does not permit bringing an action for a declaration of non-infringement. Potential infringers must wait to be sued.*

therefore struck.

Potential defendants in industrial design matters must therefore wait to be sued before they can seek a non-infringement ruling.

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## Out With The Old?



Yasin Bismilla

October 1, 2009 marked the twentieth anniversary of the coming into force of several major revisions to the Canadian *Patent Act*, colloquially referred to as the "New Act," in contrast to the "Old Act" that existed prior to that date. The most significant changes introduced in the New Act included a change to the term of patents from seventeen years

from the issue date to twenty years from the filing date, a change from the first-to-invent system to the first-to-file system, and the introduction of published applications.

There were nineteen applications filed on October 2, 1989, the first business day of the New Act. While a number

of these did issue to patent, only two were maintained throughout the term of the patent, and became the first of the New Act patents to expire on October 1, 2009. In classic Canadian fashion, these included an English language patent, Canadian Patent number 2,000,001 to Panametrics, Inc., entitled "Oxygen Sensing Method and Apparatus" and a French language patent, patent number 2,000,015 to Institut Francais Du Petrole, entitled (in English) "Catalytic Reforming Process."

It is also noteworthy that on September 29, 2009, Canadian patent number 1,341,598, entitled "Acid-Labile Sub-Unit (ALS) of Insulin-Like Growth Factor Binding Protein Complex" issued following Commissioner's

Decision 1283. Just two days shy of the anniversary of the expiry of the first New Act patents, an Old Act application issued to patent, and as applicable under the Old Act, will expire 17 years from the issue date, on September 29, 2026. This may not be the last of these patents issuing under the Old Act to emerge either.

According to the CIPO Annual Report 2007-08, there are at least seven conflict proceedings still before the patent office, and the resolution of these may lead to the issuance of additional Old Act patents. As patent applications were not published under the Old Act, the subject matter of these is still unknown. The same holds true for Commissioner's Decisions resulting in abandonment of Old Act applications. These Commissioner's Decisions are generally not published, unless the application issues to patent.

According to the 2008 Canadian Patent Office Record, twenty-one Old Act applications issued to patent in 2008, and thus far in 2009, eleven have issued, including the aforementioned '598 patent following Commissioner's Decision 1283. The thought of a twenty year prosecution process for a patent application is astounding. It would have been hard to imagine, back in 1989, that there would be Old Act cases pending when the first of the New Act patents expired. Not surprisingly, the overwhelming majority of Old Act applications issuing recently are in the biotechnology arts. Accordingly, there is still a ways to go before the Old Act is finally put to rest, as litigation arising from these recently issued cases may be ongoing for some time to come.

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## News

### Two Lang Michener Lawyers Appointed to INTA Committees

Lang Michener is pleased to announce that **Dale Schlosser** and **Peter Giddens** have each been appointed to International Trademark Association (INTA) committees. INTA committees are central to INTA's role as a representative body for trademark owners around the world. The appointments will commence in January 2010.

Dale Schlosser has been appointed to the Enforcement Committee and the Discovery Practices & Procedures

Subcommittee of the INTA Enforcement Committee, and Peter Giddens has been appointed to the Trademark Office Practices Committee (TOPC).

### Lang Michener Lawyers Recognized as Best Lawyers in Canada 2010

**Donald MacOdrum** and **Donald Plumley** are two of 22 Lang Michener lawyers listed in the Best Lawyers in Canada 2010. Both were listed for their work in intellectual property.

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