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From The Courts

Regarding Class Action Certification

Christina Fitzmaurice

In the recent past, discontented franchisees have realized the benefits of banding together in class proceedings against their franchisor. We will watch with interest in the coming years for franchise-related class action suits to unfold, as the Ontario courts have recently certified several class proceedings. Certification was successful in *1250264 Ontario Inc. v. Pet Valu Canada Inc.,* (2011) and *578115 Ontario Inc. v. Sears Canada Inc. (*2010), both actions challenging the franchisor's practices with respect to volume rebates. Similarly, the franchisor's appeal of certification in *Quizno's Canada Restaurant Corporation v. 20388724 Ontario Ltd. (*2010) was dismissed.

When Is Disclosure Necessary?

Christina Fitzmaurice

Courts in Ontario have shown a trend toward strictly enforcing procedural requirements vis-à-vis the validity of disclosure documents. Consistent with this trend, in *2189205 Ontario Inc. v. Springdale Pizza Depot Ltd.* (2010) the Ontario Superior Court of Justice rejected the franchisor's assertion that a disclosure document was not necessary since the franchisee was purchasing an already existing franchise from a third party, the court concluded a disclosure document was necessary as the franchisor was actively engaged in the sale process.

However, in *TA & K Enterprises Inc. v. Suncor Energy Products Inc. and Suncor Energy Inc. (*2010) the Ontario Superior Court of Justice found that a disclosure document was not necessary, as the following conditions pursuant to section 5(7)(g)(ii) of the *Arthur Wishart (Franchise Disclosure) Act* (2000) were met: the franchise agreement was for not longer than one year, and no non-refundable franchise fee was paid.

When are Arbitration Clauses Enforceable?

Christina Fitzmaurice

Within the franchise context and beyond, courts will generally enforce mandatory arbitration agreements between parties. In a case in point, the provision of the franchise agreement pertaining to mandatory arbitration was upheld in *Nazarinia Holdings Inc. v. 2049080 Ontario Inc.* (2010). The court affirmed that claimed rights of rescission do not invalidate arbitration provisions, and that arbitrators have the jurisdiction to determine allegations of invalidity of franchise agreements.

At the same time, the courts will scrutinize the arbitration clause to determine if it applies. In *Stoneleigh Motors Limited v. General Motors of Canada Limited* (2010), the rules of arbitration subscribed to by the parties were found to only apply to individual actions, not multi-party proceedings. Accordingly, the plaintiffs here could join together to bring a multi-party action in court. Note also that the Ontario Court of Appeal found in *405341 Ontario Limited v. Midas Canada Inc.* (2010) that franchisees have statutory rights to associate for purposes of bringing a class action. It therefore appears in a class action scenario the franchisees will be able to proceed in court even if there is an arbitration clause.

On the Legislative Front

Franchise Act Regulations Passed in New Brunswick

Joseph Adler

On February 1, 2011, the New Brunswick *Franchises Act* S.N.B. 2007, c. F-23.5 (the "Act") and its applicable regulations came into effect. The Act draws upon Ontario's *Arthur Wishart Act (Franchise Disclosure)* 2000, Prince Edward Island's *Franchises Act* and the uniform franchise code adopted by the Uniform Law Conference of Canada (the "ULCC"), indicating that its requirements will not be entirely new for franchisors currently operating in multiple jurisdictions within Canada.

The regulation addressing disclosure (the "Disclosure Regulation") has substantially similar requirements as other disclosure jurisdictions, but with some important distinctions.

In contrast to other jurisdictions, delivery of a disclosure document through electronic means is expressly permitted where the document is able to be printed by the prospective franchisee and is entirely internally contained.

Disclosure must be more robust in certain circumstances, specifically in respect of the franchisor's policies regarding internet and distance sales, guarantees and security interests, and the geographic proximity to be allowed between franchisees, if any such policies exist. Where the franchisor does not provide training or the grant of exclusive territories to franchisees, a statement must be disclosed to that effect.

Acknowledging that few franchisors will grant more than twenty franchises in New Brunswick, the Disclosure Regulation requires that franchisors disclose contact information regarding a minimum (if applicable) of twenty existing franchisees, and lists the particular geographic areas that the franchisor must look to in order to reach twenty existing franchisees.

One of the more unique aspects of the Act are the dispute resolution procedures detailed in the second regulation (the "Mediation Regulation"). While the Mediation Regulation does not make mediation mandatory, in the instance that one party serves a 'notice of dispute' the parties then have a 15-day timeline in which to resolve the dispute. If the matter is not successfully settled in 15 days, either party may serve a 'notice to mediate' to begin the mediation process. If a 'notice declining mediation' is not served, both parties must adhere to the strict timelines for the mediation process, as found in the Mediation Regulation. Franchise counsel may find new relevance to the duty of fair dealing and good faith when applied to the statutory mediation process.

Protecting Your Brand

How to Get the Drop on a Domain Name that Got Away

Lorraine M. Fleck

Businesses often want to acquire a domain name that someone else registered first. One way to do so is to attempt to re-register a domain name when it's registration expires.

A domain name does not become available on the date its registration expires. Rather, there is a grace period during which the person who registered the domain name can renew the domain. The grace period varies according to the domain name registry.

Once the grace period is over, the domain name is put in a lockdown period (usually a few days) and is placed on a list of domains to be deleted (called a "pending delete" list). The domain cannot be transferred to anyone during the pending delete period.

Once a domain is taken off the pending delete list, the domain name is "dropped" back into the pool of domain names and can be registered by anyone. The drop often occurs within a few hours of the domain being taken off the pending delete list.

If the domain name is a desirable one, most businesses will have a very small chance of registering a domain name during the drop. Domain name speculators often have and use significant computer resources to "catch" domains on the drop, beating out the competition. Those same speculators may then demand a significant sum - usually several thousand dollars, if not more - to sell the domain name to an interested party.

A solution? Subscribe to one or more "drop-catch" services that will watch the drop and attempt to catch the desired domain for you.

There are a number of companies which offer drop-catch services. As they are all competing to catch the domain on the drop, no company can guarantee that it will catch the domain name for you. Therefore, many brand owners use multiple drop-catch services to increase their chances of acquiring a desired domain name.

Some companies offering drop-catch services for .com domains, as well as .ca domains (the Canadian country code domain name) include Pool.com, Snapnames and GoDaddy.com. While our firm does not endorse any of those companies, they are currently some of the largest drop-catch service providers.

Pool.com and Snapnames currently charge about $60 U.S. per domain name - including the registration fee - if no one else tries to register that domain name. At present, Pool.com and Snapnames only charge for their service if they catch the domain name for you. GoDaddy.com charges around $25 Canadian per domain name (including the registration fee) if no one else tries to register the domain - but the fee is due up front.

If others try to buy the domain name you are interested at the drop through the same drop-catch company, the domain will probably be put up for auction. This means that you could end up paying considerably more for the domain if you still decide to pursue it. Often, however, it is cheaper to use a drop-catch service to acquire a domain name than pay a domain name speculator significantly more to purchase the domain.

Trade-mark Truisms: Best Practices for Acquiring and Managing Trade-marks

Lorraine M. Fleck

Trade-marks are fundamental to franchising. Given their importance, it is critical that a franchise system's marks are properly used and managed. There are a number of basic principles for using, acquiring and managing trade-marks in Canada that are simply explained by common turns of phrase. This article reviews those principles and their application to trade-mark use, acquisition and management in the franchising context.

1. "The early bird gets the worm"

Generally, the person who uses a trade-mark first in Canada acquires trade-mark rights in the area where the mark was used or acquired a reputation. This means that if two franchise concepts in the same industry are using the same or confusingly similar trade-marks in the same city, the concept that used the mark first has prior rights. Therefore, franchisors should use their marks as soon as possible.

In the trade-mark application context, Canadian trade-mark applications are examined on a first to file basis. This means that if the Canadian Trade-marks Office considers two applications confusing, the application with the earlier filing date or priority date is considered the application entitled to registration. Claims of use in Canada are irrelevant. If the later filed application claims use in Canada that predates the filing date of the earlier filed application, the owner of the later filed application is left with two potentially expensive options: opposing the application or purchasing the mark. Thus, franchisors should apply for Canadian trade-mark registrations as soon as possible to avoid losing the opportunity to register their trade-marks in Canada, as well as minimize expenses associated with opposition proceedings and trade-mark acquisitions.

2. "Use it or lose it"

Trade-mark rights in Canada are acquired and maintained through use, as defined in the *Trade-marks Act*, R.S.C. 1985, c.T-13. Not only is use critical to acquiring unregistered and registered trade-mark rights in Canada, but a trade-mark must be continually used in order to maintain any unregistered or registered rights. If a mark is not used, whatever rights a franchisor may have acquired in the mark may be deemed abandoned. This may occur where the trade-mark has been altered. Even what some may consider minor changes to a mark can result in a loss of trade-mark rights.

In the trade-mark registration context, if a registered trade-mark is not used in Canada with the wares and/or services claimed in the registration for three (3) years and there are no justifications for non-use, the registration may be vulnerable to cancellation in administrative proceedings. Such proceedings may be initiated at the request of a competing franchisor that is aware the registered mark is not being used, and wants to register the same or a confusingly similar mark. Accordingly, franchisors should continuously use their marks without alteration, and file trade-mark applications for any updated versions of older marks in the event that any registrations associated with the older marks are cancelled for non-use.

When a franchisor applies for a trade-mark registration, the use claims made in the application and any resulting registration must be accurate. Material inaccuracies in use claims may expose a Canadian trade-mark application to opposition proceedings initiated to prevent an application from registering. Such proceedings may be successful, depending on the facts and evidence filed. Similarly, material inaccuracies in use claims may make a trade-mark registration susceptible to cancellation if the registration is challenged. Therefore, franchisors and their trade-mark agents must ensure that trade-mark application use claims are accurate. Otherwise, the franchisor risks owning a piece of paper instead of registered rights which can be successfully asserted in legal proceedings.

3. "An ounce of prevention is worth a pound of cure"

Franchisors and franchisees can take a number of proactive steps to address potential trade-mark issues and potentially prevent or minimize legal disputes and associated costs.

For a franchisor, one of those steps is to obtain a trade-mark agent or lawyer's opinion on a trade-mark's availability before using and applying for a trade-mark. The opinion should be based on searches of registered and unregistered trade-marks. Such searching and opinion may allow a franchisor to avoid investing time and money in a trade-mark that is unavailable for use. Failure to seek an availability opinion can be costly, as the franchisor may incur legal fees if it is forced to defend against an opposition or trade-mark infringement lawsuit due to its use of an unavailable trade-mark. Further, a franchisor may be forced to change and rebrand its signage, websites and marketing materials, all at considerable cost to the franchisor and its franchisees.

Another trade-mark management strategy is the proactive registration of domain names and social media usernames that incorporate the franchise's trade-marks. Such registrations can reduce cybersquatting (often defined as registering a domain name consisting of a business' trade-mark or trade-name in order to sell the domain name back to the legitimate owner or disrupt the legitimate owner's business). While a franchisor may be able to successfully use legal remedies to obtain domain names and social media usernames that incorporate the franchisor's marks without authorization, the costs of such remedies can be significant and considerably exceed the costs of proactive registration. For example, a .com domain name dispute brought before the World Intellectual Property Organization costs several thousand dollars - the arbitration fee alone can run as high as $4000 U.S. In contrast, some domain name registrars charge $12.00 Canadian/year plus taxes for a .com domain name registration, making proactive registration considerably more cost effective. Proactive domain name and social media username registrations also mean that domain names and usernames incorporating the franchisor's marks are available if and when the franchisor decides to incorporate those domain names and social media accounts into its marketing campaigns. Further, controlling such domain names and user names reduces the likelihood that the franchisor's trade-marks will be associated with controversial, salacious, defamatory and other potentially illegal content that can tarnish a franchise's brand.

From both a franchisor and franchisee's perspective, franchise agreements, as well as operation manuals, should address whether a franchisee has permission to use the franchise's marks on the Internet (e.g. in domain names, social media and key word advertising). Doing so may increase certainty as to how the franchisee can and cannot use the franchise's marks. If a franchisor permits its franchisees to use the franchise's marks on the Internet, the appropriate licensing arrangements with requisite control should be established prior to such use to ensure that such trade-mark use is attributed to the franchisor in accordance with the licensing provisions of the Trade-marks Act.

4. "You don't know what you've got 'til it's gone"

Franchisors should maintain their marks by documenting trade-mark use, ensuring there are quality control mechanisms in place for licensed trade-marks and monitoring the marketing place for unauthorized use.

Documenting trade-mark use is critical in the event a franchisor needs to assert or defend its trade-mark rights. Keeping an ongoing file of representative trade-mark use documentation can be useful if a franchisor is involved in trade-mark proceedings before the Trade-marks Office or the courts. When retaining such documentation, the franchisor should be mindful of the definitions of use in theTrade-marks Act. Such documentation can also be useful for trade-mark due diligence if the business is sold.

A franchisor also needs to ensure that it has direct or indirect control over the quality or character of the wares and services offered under its trade-marks, pursuant to the Trade-marks Act's licensing provisions, to ensure that trade-mark use is attributed to its businesses. While such quality control is a hallmark of the typical franchisor-franchisee relationship, it is imperative that quality control mechanisms are not just written in an agreement, but are actually implemented. A franchisor who fails to implement such quality control mechanisms runs the risk that the relevant marks may be deemed not used under the Trade-marks Act licensing provisions, making any relevant trade-mark registrations potentially susceptible to cancellation proceedings.

Finally, policing the franchise's marks - i.e. monitoring the marketplace for unauthorized or improper uses of a mark, and pursuing enforcement of one's rights accordingly - is important to maintain the marks' distinctiveness. Such monitoring activities may also help to prevent consumer confusion and lost revenue. While the franchisor may take the lead in such monitoring activities, franchisees should also report unauthorized or improper use of the franchisor's marks to the franchisor in an attempt to preserve the marks' distinctiveness and assist in protecting the franchisee's investment.

Conclusion

Trade-mark acquisition and management requires more than simply placing the TM or registered trade-mark symbol after a trade-mark. Use, documentation - in the form of trade-mark use documentation and agreements governing trade-mark use with franchisees - as well as proactive measures such as obtaining an availability opinion before using and applying for a trade-mark, are key to acquiring and maintaining the trade-mark rights that are integral to building a distinctive franchise brand.

Firm News

- We are closely monitoring the Manitoba government's soon to be released Regulations to the *Manitoba Franchises Act* and the Ontario government's Bill 102, a private member's bill set to make some drastic amendments to the *Arthur Wishart Act (Franchise Disclosure),* 2000.
- Joe Adler co-chaired the OBA Institute Franchise Law Section on February 3, 2011.
- Joe Adler and Lloyd Hoffer attended the International Franchise Association (IFA) Annual Convention held February 13 - 16, 2011.
- Joe Adler co-facilitated an "International Franchising" roundtable at the Business Solutions Roundtables at the IFA Annual Convention.
- Hoffer Adler LLP sponsored the "Taste of Franchising" event at the IFA Annual Convention.
- Lorraine Fleck spoke on copyright and trade-marks in social media at Podcamp Toronto 2011 on February 26, 2011.
- Lloyd Hoffer presented the Case Law Update at the Plenary Session of the Canadian Franchise Association (CFA Ontario Region) Legal Day on March 2, 2011.
- Joe Adler will present "Leasing Issues in Franchising: Don't Give Away the Store" at the upcoming CFA Annual Convention (April 3 - 5, 2011).
- Lorraine Fleck is attending the International Trademark Association (INTA) Annual Meeting, held between May 14 - 18, 2011.
- Lorraine Fleck will present "An Ounce of Prevention is Worth a Pound of Cure: Key Elements for Social Media Policies" at the MyCharityConnects 2011 Conference on June 7, 2011.
- Lorraine Fleck is now an executive member of the Toronto Chapter of the Licensing Executive Society (U.S.A. and Canada).

We hope you found this newsletter informative. If you have any questions or require further information on any of the topics covered in this newsletter, please contact us.

Sincerely,

Joseph Adler
Hoffer Adler LLP

Hoffer Adler LLP