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Blaney McMurtry
BARRISTERS & SOLICITORS LLP

Commercial Litigation Update

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This newsletter is designed to bring news of changes to the law, new law, interesting decisions and other matters of interest to our commercial litigation clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Commercial Litigation group:

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"This is a major advancement for freedom of expression advocates, authors, and publishers who share information on the Internet that they do not create or control."

SUPREME COURT GIVES INTERNET "POSTERS" NEW PROTECTION AGAINST LIBEL SUITS

Danielle Stone

Suing for defamation on the Internet just got more difficult in Canada.

On October 19, 2011, the Supreme Court of Canada released its long-awaited decision on whether linking to defamatory statements on the Internet constitutes publication for the purposes of a defamation action. With *Crookes v. Newton*, the Court has decided that posting a hyperlink on the Internet does not in itself constitute publication of defamatory material available on another website.

The case is significant, because every plaintiff must prove that the defendant published the defamatory statements at issue to a third party. Now, it is clear that if the defendant posted a link to material elsewhere on the Internet, he or she is not liable in defamation as a publisher of the defamatory statements.

In reaching the decision, the Court stressed the important role of the Internet in supporting the democratic principle of free speech, indicated that use of the Internet to disseminate information "should be facilitated rather than discouraged" and decided that "hyperlinks are an indispensable part of its operation."

This is a major advancement for freedom of expression advocates, authors, and publishers who share information on the Internet that they do not create or control. It's a blow to those wanting to protect their reputations by limiting the exposure of defamatory statements on the Internet, and by going after those individuals who help publicize statements on more obscure websites.

But the binding decision by Justice Abella has to be read in context.

In the case, the plaintiff Wayne Crookes was a Vancouver businessman and campaign manager for the Green Party of British Columbia. Jon Newton, the publisher and author of the website p2pnet.net, published links to articles on a couple of other websites discussing Mr. Crookes. Mr. Crookes felt that these statements were defamatory, and sued Mr. Newton for linking to the defamatory statements, which were a website that Mr. Newton did not control or help create.

It is important to note, however, that in this case Mr. Newton did not actually express his agreement with the statements on the other website. Neither did Mr. Newton repeat any of the statements on his own website. He posted a

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"Canada's highest court also recognizes the 'importance of achieving a proper balance between protecting an individual's reputation and the foundational role of freedom of expression..."

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link, directing his readers to the content on another site. Further, there was no evidence before the court that a third party actually used the hyperlinks to read the defamatory statements.

In this context, Justice Abella decided that a hyperlink is content neutral, and "by itself, should never be seen as publication of the content to which it refers." With that, Mr. Crookes's defamation action failed.

But what if Mr. Newton had expressed agreement with the statements made on the other website? Or what if Mr. Newton had re-published excerpts from the hyperlinked site?

In additional written reasons, Chief Justice McLachlin suggests that a hyperlinker should be found liable in some circumstances; for example, if the hyperlinker adopts or endorses the content on another website.

In further reasons, Justice Deschamps raised concerns about the ongoing technological advances on the Internet and uncertainty over how this decision could affect future methods of sharing information. She relied on the longstanding innocent dissemination principle to suggest that the Court should focus on how a hyperlink makes information available, and whether anyone actually accessed the information through the hyperlink.

Justice Deschamps' concerns are sure to resonate with lower courts needing to apply the law to future defamation cases. In particular, it will be interesting to see how future courts deal with Internet search engines that create an automatic snapshot of the hyperlinked website. It will also be interesting to see whether this case increases debate over assumed publication on the Internet. In many jurisdictions, there is a presumption in provincial libel laws that defamatory words in "old" media (newspapers or broadcasts) are published to third parties. While this case is about hyperlinks alone, the Court's analysis does raise questions about whether provincial libel laws should also presume that statements on the Internet are published to third parties.

Nonetheless, the decision makes it clear that the Supreme Court of Canada prefers that defamation litigants go after the original authors/publishers of defamatory statements. It has confirmed that while "a reputation can be destroyed in the click of a mouse, an anonymous email or an ill-timed Tweet," Canada's highest court also recognizes the "importance of achieving a proper balance between protecting an individual's reputation and the foundational role of freedom of expression in the development of democratic institutions and values." ■

COMMERCIAL LITIGATION UPDATE

"Conflicting decisions by Canadian regulators and courts regarding the adoption of poison pills and directors' duties in Canada have done little to assist us."

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PILL-POPPING: HOSTILE TAKEOVERS AND SECURITIES REGULATION IN ONTARIO

Catherine MacInnis

"There seems to be some perverse human characteristic that likes to make easy things difficult." - Warren Buffett.

Securities regulation in Canada, with its 13 different securities jurisdictions, is sometimes politely referred to as a "*mosaic*". A mishmash might be a more apt description. There is perhaps no area of securities regulation that exemplifies this concept better than the treatment of hostile takeover bids and the resulting adoption of shareholder rights plans, or "*poison pills*," by target companies. Conflicting decisions by Canadian regulators and courts regarding the adoption of poison pills and directors' duties in Canada have done little to assist us.

Target companies involved in a hostile takeover bid may employ a poison pill to dilute the price of their shares, rendering the takeover unprofitable unless the company or its shareholders approve the bid. For example a company may pass a resolution such that a poison pill is triggered once a single shareholder acquires 20 per cent of the issued and outstanding shares of the company, at which point, all *other* shareholders will have the ability to buy new issues of shares at a discount (sometimes called a "*flip-in*").

In Ontario, as in the rest of Canada, both the regulators and the courts exercise jurisdiction over disputes arising from hostile takeover bids and the adoption of poison pills. The result is that the target board in Ontario may be left to fight a battle on two fronts: (a) applications before the Ontario Securities Commission (OSC) to either prevent the bidder from buying more shares of the target company, or to prevent the target company from issuing new shares to dilute their value; and (b) applications before the Superior Court of Justice, most often the commercial list in Toronto. How can the board of directors of a target company manage the risk?

1. Avoid Litigation If You Can

The best strategy is always to take pro-active steps to avoid litigation. If you are on the board of directors of the target company and you are considering defensive strategies to a takeover bid (including the adoption of a poison pill), this means that you should:

(a) set up an independent special committee to consider the takeover bid;

(b) arm the committee with the tools that it needs to make recommendations that are in the best interests of the company and the stakeholders, including hiring outside experts and advisors, if necessary;

(c) obtain informed shareholder approval if the committee recommends that a poison pill or defensive strategy be adopted. Where prior approval of the poison pill or defensive strategy is not possible, subsequent ratification from the shareholders should be sought as soon as possible.

Unlike the United States, where courts will allow a board of directors to "*just say no*" to a hostile takeover bid, the traditional rule in Ontario has

"Unfortunately, experience tells us that no matter how careful you are, you may still end up in litigation."

been that poison pills were permissible only to the extent that they were a short-term measure used to facilitate an auction for other bids. Recent decisions by the OSC, including its 2009 findings in *Neo Materials Technologies Inc.*, have called this traditional rule into question. It appears that the adoption of a poison pill on an indefinite basis is now possible, though more likely to attract scrutiny from the OSC. As a board of directors of a public company, your primary concern is to act in the best interests of the company. However, in order to prevent a successful attempt to block you from adopting a poison pill, your recommendations and actions should also take into consideration the best ways to maximize shareholder value. Attempts to entrench either the board of directors or current management through the adoption of poison pills are not likely to succeed.

2. Fighting a War on Two Fronts

Unfortunately, experience tells us that no matter how careful you are, you may still end up in litigation. This is particularly so if you adopt a poison pill to defeat a takeover bid. The prevailing view is that the OSC has the expertise necessary to deal with disputes arising from mergers and acquisitions but, increasingly, parties are also looking to the expertise of the judges for guidance.

If you are the target in a hostile takeover bid, you may apply to the OSC for relief under the *Ontario Securities Act*, to prevent a takeover bid from proceeding where a person or company has failed to comply with the provisions of the *Act*. More commonly, however, it is the bidder in a hostile takeover that will apply to the OSC to prevent the target company from adopting the poison pill. The bidder may also make an application to a court to, among other things, allege that the board of directors of the target company breached its fiduciary duties by recommending to the shareholders of the company that they vote to approve the adoption of the poison pill.

The problem for all concerned is that the decisions of the OSC and the courts are often at odds: while the OSC tends to view the dispute through the prism of shareholder choice and value maximization, the courts will tend to review the target board's actions in terms of their fiduciary obligations to the corporation and what is in the best interests of the corporation.

What is best for the shareholder today is not always what is best for the corporation over time and legal practitioners have argued for more consistency in dealing with the inevitable disputes that arise between target boards on the one hand and bidders and other shareholders on the other. Rather than relying on the conflicting decisions of Canadian regulators and courts, and forcing boards of directors to fight a war on two fronts, it has been suggested that we should adopt a model similar to that in the United States, where such disputes are typically dealt with by specialized judges in traditional courts.

Until then, the reality is that boards of directors that chose to adopt defensive tactics during takeover bids will be subject to scrutiny by both the OSC and the courts. ■

COMMERCIAL LITIGATION UPDATE

"Trademark registration gives one the benefit of exclusive rights to use or license the mark across Canada for 15 years. This 15-year period is renewable indefinitely..."

Varoujan Arman, a graduate of The University of Windsor law school, completed his articles in June 2011 and is currently a member of Blaney McMurtry's commercial litigation, insurance defence litigation and architectural, Construction, and engineering services (ACES) groups. He has been published in the Oxford Journal of Intellectual Property Law and Practice.

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SUPREME COURT DECIDES TRADEMARK DISPUTE: WHAT IT MEANS FOR YOUR BUSINESS

Varoujan Arman and Jacqueline Chernys

Background

The value of adopting a brand or trademark will be instantly obvious when one considers trademarks such as the Apple logo on the iPad or the Nike swoosh. Fortunately, even for not-so-famous trademarks, Canadian trademark law restricts confusion between different vendors' products or services. The underlying policy rationale is that the consumer has a right to know the source of the product or service being offered. Businesses benefit from the opportunity to distinguish their products and build goodwill associated with their brand-name(s). With the ever-increasing importance of branding in the business world, entrepreneurs and companies can learn important lessons from the Supreme Court of Canada's decision in *Masterpiece Inc. v Alavida Lifestyles Inc.* released May 26, 2011.

The dispute began when Masterpiece applied to register the trademark, "MASTERPIECE LIVING," in relation to the retirement residence industry. Masterpiece's trademark application was denied because Alavida had already applied for, and been granted, a registration for the same trademark to be used for the same services, namely, retirement residences.

Masterpiece then applied to the Federal Court to remove Alavida's trademark registration from the Canadian Register of Trademarks (in what are known as "expungement proceedings") on the basis that Masterpiece had already been using a confusingly similar trademark ("MASTERPIECE THE ART OF LIVING") prior to Alavida's application for trademark registration. Masterpiece failed at the Federal Court and Federal Court of Appeal and was successful only upon further appeal to the Supreme Court of Canada.

Early Protection and Monitoring

Perhaps the most important lesson from the Masterpiece decision is the benefit of registering a trademark early on. A business that sees any value in a trade-name or trademark should act quickly to register it. Any hesitation could prove costly. Trademark registration gives one the benefit of exclusive rights to use or license the mark across Canada for 15 years. This 15-year period is renewable indefinitely, subject to continued use of the trademark. Had Masterpiece registered its trademarks early on when it began using them, Alavida would not have been granted a registration for "MASTERPIECE LIVING." The application for registration would have been refused on the basis that it was confusingly similar with existing trademarks. As a result, Masterpiece would have avoided the time and cost involved in challenging Alavida all the way to the Supreme Court.

Also of crucial importance for businesses is the ongoing task of monitoring new trademark applications published in the Canadian Intellectual Property Office's Trade-marks Journal. New trademark applications are published in the Journal every Wednesday so that interested parties may oppose the application during the two-month period following publication. Had Masterpiece been monitoring the

"When enforcing a registered mark against a competitor, the plaintiff will not be required to prove that a likelihood of confusion (or actual confusion) exists in the specific locality."

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published trademark applications (through an available electronic reporting service, for instance), it could have opposed Alavida's trademark application in a procedure before the Trademarks Opposition Board instead of having to apply to the court for expungement of a registered trademark after the fact.

Trademark Enforcement and Relevant Evidence

Owners of trademarks, particularly in highly competitive markets, ought to take note of the following issues in respect of the enforcement of trademark rights (i.e. infringement proceedings).

First, the Supreme Court clarified that trademark protection in Canada is *national* in scope. That is, any confusion analysis must be based on the assumption that the trademarks are being used within the *same* geographical area. When enforcing a registered mark against a competitor, the plaintiff will not be required to prove that a likelihood of confusion (or actual confusion) exists in the specific locality. After all, in the Masterpiece decision, Masterpiece was operating retirement residences in Alberta and Alavida was operating in Ontario.

Secondly, the Court provided some guidance respecting the types of evidence that are appropriate in a trademark infringement action. Traditionally, trademark litigants in Canada have gone to great expense to file complex consumer survey evidence with the court. Such evidence would typically address whether a cross-section of average consumers had heard of certain trademarks, or would be likely to be confused by the trademark in question. In an attempt to simplify matters, the Court stated that such survey and expert evidence should be admitted sparingly, only when it is beyond the experience of the Court to decide on issues of confusion. Hopefully, this will result in trademark enforcement becoming more affordable by reducing the need for costly survey evidence and excessive expert witnesses.

With the increasing awareness of the value of brand protection and a likely reduction in the average cost of trademark infringement proceedings, businesses may now be more willing to consider pursuing infringers to send the message that their trademark rights will not be easily trampled on. ■

Commercial Litigation Update is a publication of the Commercial Litigation Group of Blaney McMurtry LLP. The information contained in this newsletter is intended to provide information and comment, in a general fashion, about recent cases and related practice points of interest. The information and views expressed are not intended to provide legal advice. For specific legal advice, please contact us.

We welcome your comments. Address changes, mailing instructions or requests for additional copies should be directed to Kylie Aramini at 416.593.7221 ext. 3600 or by email to karamini@blaney.com. Legal questions should be addressed to the specified author.

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