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Individual Liability of Officers and Directors for Patent and Trademark Infringement

Patent infringement or trademark infringement can occur when a company acts in such a way as to violate the exclusive right of its owner - in a patent case, typically by making, selling or using an embodiment of the patented invention; in a trademark case, by selling articles or providing services in association with a trademark that resembles that of the plaintiff. The plaintiff owner need not prove that the defendant company had any corporate intention to infringe, nor even that the defendant was aware of the plaintiff's right.

But what of an officer or director of the company? The courts have held that in some circumstances, such individual may be liable for infringement as well as the company. It is often in an intellectual property owner's interest to allege infringement by an officer or director of the defendant company. Among the advantages of so doing are (i) the officer or director can as of right be examined for discovery; (ii) if the company is insolvent, a successful plaintiff may be able to satisfy the judgment from assets of the officer or director; (iii) if the officer or director is sued as well as the company, there may be more incentive on the defendants to capitulate or to settle the case on terms advantageous to the plaintiff.

The Federal Court of Appeal case *Mentmore Manufacturing v. National Merchandise Manufacturing*, sheds some light on the applicable criteria. First of all, to be liable, an officer or director need not be a deliberate infringer:

I do not think we should go so far as to hold that the director or officer must know or have reason to know that the acts which he directs or procures constitute infringement. That would be to impose a condition of liability that does not exist for patent infringement generally.

The key question appears to be whether the individual has merely acted as an officer or director in the ordinary course of business of the company, or whether he has gone deliberately or recklessly further. The trial judge in the *Mentmore* case put the finding this way:

[The individual defendant] deliberately or recklessly embarked on a scheme, using the company as a vehicle, to secure profit or custom which rightfully belonged to the plaintiff.

And on appeal, the Court said this:

... in my opinion there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it but the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it.

IN THIS ISSUE:

Individual Liability of Officers and Directors for Patent and Trademark Infringement

Protection of Distinguishing Guises

Money Laundering

New Professional Staff

See our website www.barrigar.com for further information.



**Barristers and Solicitors
Registered Patent and Trademark Agents**

Officers or directors who are the “directing minds” of a company face the risk of individual liability for acts of infringement committed by the company, if they act beyond what is ordinary and usual in the course of business of the company.

In *Paula Lishman v. Erom Roche*, it was held that if the individual officer or director has taken steps to remove assets from the company, so that the intellectual property owner or any other plaintiff might encounter difficulty in collecting any judgment from the defendant company, that fact will tend to render the individual liable for the infringement. However, if there is a legitimate business reason (e.g. income tax reduction) for reducing the assets of the company, even if it benefits the individual defendant, the asset reduction will not *per se* result in individual liability: *Baker Petrolite v. Canwell Enviro-Industries*. But *Paula Lishman* suggests that attempts made to conceal infringement by routing orders through a third party or arranging to have a third party manufacture the infringing articles will incline the court to impose individual liability.

In *Ital-Press v. Sicoli*, the Court in imposing individual liability referred to the “arrogance, disrespect for the process of the Court and evasiveness” of the individual defendant:

Like her son, she appeared to ensure that she was in a position to testify to that which was in the interests of herself and the corporations that are co-defendants and of which I conclude that she is the directing mind.

However, being the “directing mind” of the company does not appear to be sufficient by itself to impose individual liability. In the recent case *Monsanto Canada v. Schmeiser*, the Court noted that some of the infringing sales identified the individual farmer, rather than the defendant farming corporation, as the vendor. Nevertheless, the Court refrained from imposing individual liability on the farmer, commenting as follows:

My reading of [prior] cases is that it is exceptional when a director is held personally liable, at least in damages or monetary awards in these circumstances. In [a prior case], the Court of Appeal upheld a decision to assign no personal liability to a director whose conduct could not reasonably be said to be outside the normal relationship of the direc-

tor to his company, and otherwise so deliberate as to cause, or entirely indifferent to the risk of, infringement.

The courts have tried to leave a little room for manoeuvre, so as to take into account the particular circumstances of each case. In the *Mentmore* case, the Federal Court of Appeal said this:

The precise formulation of the appropriate test is obviously a difficult one. Room must be left for a broad appreciation of the circumstances of each case to determine whether as a matter of policy they call for personal liability.

In the result, while officers and directors who focus on the ordinary business of the company will not normally be held liable for the infringing acts of the company, even if those acts can be attributed to the decisions of the individuals in question, individual liability will be imposed if the officers or directors act deliberately or recklessly to bring about the infringing acts, especially if they take unjustifiable concomitant measures to prevent or impede the intellectual property owners’ opportunity to obtain a just redress by the court.

Protection of Distinguishing Guises

A distinguishing guise is defined by the *Trade-marks Act* as

- (a) a shaping of wares or their containers, or
- (b) a mode of wrapping or packaging wares the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others

While the novel shape or ornamentation of an article can be protected by an industrial design registration in Canada or by a design patent in the U.S., registration under the *Trade-marks Act* for a distinguishing guise comprising the shape or ornamentation of a container, novel or otherwise, does not give protection for the container *per se*, but rather for its use in association with wares of the class sold in the container. Perhaps the best

known distinguishing guise is the shaped bottle used by Coca-Cola for its famous soft drink. If policed and enforced, a distinguishing guise may maintain its distinctiveness for decades; its registration may be repeatedly renewed indefinitely.

Sometimes the first user in Canada of a particular container or package can by extensive use obtain an exclusive right in the use of the container for a product of a given type, even if the container was initially perceived as being merely decorative or informative as to its contents, and thus available to others to use, since the fundamental principle of the law is freedom of competition. A good example of this type of container is the yellow plastic lemon-shaped container containing lemon juice. It has come to distinguish the lemon juice of one source only, and is not available for use by that vendor's competitors, even though they might have freely copied it had they done so when it first appeared in the marketplace.

Distinguishing guises can be registered as trademarks, but only subject to certain constraints. Section 13 of the *Trade-marks Act* reads as follows:

13. (1) A distinguishing guise is registrable only if

(a) it has been so used in Canada by the applicant or his predecessor in title as to have become distinctive at the date of filing an application for its registration; and

(b) the exclusive use by the applicant of the distinguishing guise in association with the wares or services with which it has been used is not likely unreasonably to limit the development of any art or industry.

(2) No registration of a distinguishing guise interferes with the use of any utilitarian feature embodied in the distinguishing guise.

(3) The registration of a distinguishing guise may be expunged by the Federal Court on the application of any interested person if the Court decides that the regis-

tration has become likely unreasonably to limit the development of any art or industry.

Sometimes a competitor thinks that a given container first used by someone else has not come to mean the specific goods of the first vendor to use the container, but merely identifies goods of a certain type. The competitor may then challenge the right of the first vendor to maintain an exclusive right to the use of a container of this general sort. A recent example of this kind of dispute arose in the case *Dumont Vins & Spiritueux v. Canadian Wine Institute*. In this case, Dumont distributed wine in an opaque white bottle of the Hoch (Alsace) type, using the trademark L'OISEAU BLEU that appeared on the bottle. This wine became the best-selling light white wine in Quebec.

Since the trademark L'OISEAU BLEU was sufficient to distinguish Dumont's wine, the Canadian Wine Institute took the position that the opaque white bottle of the Hoch (Alsace) type should be available to Dumont's competitors, and opposed Dumont's application to register this bottle as a distinguishing guise for wine. The Court held for Dumont, pointing out that Dumont was the first to use such a bottle in Canada for the sale of wine, and that the white opacity of the bottle served to distinguish Dumont's wine as well as its trademark L'OISEAU BLEU. With reference to § 13(1)(b) of the *Trade-marks Act*, the Court noted that there was no evidence that the registration of Dumont's distinguishing guise would unduly limit the wine marketing industry, which had been successfully marketing wine for years in bottles that, when coloured, were black, dark green or amber.

Sometimes it is difficult for plaintiffs in cases of this sort to assert an exclusive right to the use of a colour (in this case, white) especially if others in the marketplace are using different

A container may become distinctive of the goods sold in it; if so, the container is a "distinguishing guise" and is registrable as a species of trademark.

Canadian lawyers must report suspicious transactions under new money laundering legislation.

colours for the same sort of product. (This is a problem in the colouring of pills for pharmaceutical use, for example.) If eventually all of the distinguishable colours are monopolized by competitors in a given market, how is a new entrant to the market to sell its product? This objection of the newcomer to a claim of exclusive right to a colour is sometimes referred to as "the colour exhaustion theory". The theory sprang up in the United States more than half a century ago, and has tended to fall into disfavour there, and not to have been followed in Canada. The Court in the Dumont case observed:

This theory has never been in vogue in Canada, and no longer is in the United States. On the contrary, the Supreme Court of Canada, in *Ciba-Geigy Canada v. Apotex*, [1992] 3 S.C.R. 120, seemed to accept that colour combined with form and size can serve as a [trade]mark, and that in each case the issue of whether the colour is linked to the commercial origin of the product is a question of fact.

The moral: If you like the decorative or informative aspects of your competitor's new packaging, best to imitate it early if you are going to imitate it at all. If you wait for a year or two to introduce your imitative packaging, you may find that the first user has by then obtained the exclusive right to the use of the packaging, either by having registered it, or by having used it exclusively in the marketplace for enough time that the courts will recognize a common-law right of exclusivity.

Money Laundering

Canada has enacted anti-money laundering legislation that may have an impact on all Canadian law firms, including those practising intellectual property law. Law firms now have a duty to record and report to a new Federal agency suspicious financial transactions that come to their attention. There is a concomitant duty not to report any such suspicion to a client or anyone else. In

early 2002 this duty is expected to be expanded to require the reporting of all cash transactions in excess of \$10,000 and cash transactions occurring in rapid sequence. Of particular concern to intellectual property firms will be an obligation to report (again beginning sometime in 2002) specified cross-border currency and monetary instrument transactions. It is conceivable that unless the applicable regulations are carefully drawn, caught in the legislation would be routine fees/disbursement payments as between Canadian intellectual property practitioners and those in other countries. We'll keep you posted if a problem surfaces.

New Personnel

We welcome **Johannes Schenk** to our firm. Having earned a B.Sc. in microbiology and an M.Sc. in pharmacology prior to qualifying in law, he practised in Alberta before joining our firm. He has years of litigation experience and will help us with our litigation workload as well as our biotech practice.

Our biotech practice continues to expand; we shall be welcoming in January yet another biotech practitioner, who will be transferring from a prominent intellectual property firm in Ontario. This individual has a Ph.D. and useful academic and R&D experience as well as extensive patent experience.

NOTE: Extra copies of this Newsletter are available. Fax, write, telephone or e-mail one of our offices, and we shall be pleased to send you more copies. Please also take a look at our website, www.barrigar.com. This and earlier Newsletters are posted there, along with other information on our firm and on the basics of, and practical considerations relating to, various intellectual property rights and how to acquire them.

BIPG Newsletter December 2001 DC edition

Our firm welcomes
new staff member
Johannes Schenk,
biographical details at left.

Johannes has abundant
litigation experience as well
as biotech expertise.

**BARRIGAR
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