

Federal Court



Cour fédérale

Date: 20130308

Docket: T-1866-11

Citation: 2013 FC 253

Ottawa, Ontario, March 8, 2013

PRESENT: The Honourable Mr. Justice Russell

BETWEEN:

THE SPANGLER CANDY COMPANY

Plaintiff

and

**3651410 CANADA INC.,
C.O.B. REGAL CONFECTIONS INC.
AND KARMA CANDY INC.**

Defendants

REASONS FOR ORDER AND ORDER

INTRODUCTION

[1] This is a motion brought under subsection 51(1) of the *Federal Courts Rules*, SOR/98-106, appealing the decision of Prothonotary Milczynski dated 9 October 2011 dismissing the Defendants' motion to strike the Plaintiff's Amended Statement of Claim. The Defendants are asking this Court to exercise its discretion to strike the pleadings for want of jurisdiction under

paragraph 221(1)(a) of the Rules or, in the alternative, to stay the proceedings under paragraph 50(1)(b) of the *Federal Courts Act*, RSC 1985, c F-7.

BACKGROUND

[2] The Plaintiff is the owner of Canadian Trade-mark Registration No. TMA 406,215 for the CANE CLASSICS Trade-mark. For about 18 years, the Defendant Regal Confections (Regal) had a contractual arrangement with the Plaintiff for the distribution and sale of CANE CLASSICS candy canes (Contract). In January 2010, the Plaintiff terminated the contract with Regal.

[3] In its Statement of Claim, the Plaintiff alleges that, notwithstanding the termination of the contract, the Defendants infringed upon the CANE CLASSICS Trade-mark contrary to sections 19 and 20 of the *Trade-marks Act*, and passed-off the Defendants' wares for those of the Plaintiff contrary to section 7 of the *Trade-marks Act*, depreciated the good-will of the Plaintiff contrary to section 22 of the *Trade-marks Act*, and infringed upon the Plaintiff's copyright contrary to sections 3 and 27 of the *Copyright Act*.

[4] The Plaintiff submitted an Amended Statement of Claim on 16 January 2012 that pleads that since 2011 the product at issue has been distributed by the Allan Candy Company.

[5] In their Statement of Defence and Counterclaim, the Defendants put forward as their defence that the termination of the Contract was not lawful and so they acted under a licence granted by the Plaintiff and are not liable; or alternatively that the Plaintiff's intellectual property is not valid.

[6] As part of their counterclaim, the Defendants say that the Plaintiff breached the Contract by advising Regal that it had “discontinued” the product without providing proper notice and contrary to the express terms of the Contract. Regal claims that in order to mitigate its losses and meet its customers’ supply expectations for the 2010 Christmas season it second sourced the product from the Defendant Karma Candy Inc. After the 2010 Christmas season, Regal ceased all commercial dealings in the product; there is thus no ongoing or “live” infringement issue. The Defendants also sought damages for the purported wrongful termination of the Contract.

[7] In its Reply and Defence to Counterclaim, the Plaintiff admits that the parties had a long standing relationship but disputes the contractual nature thereof. It also pleads that it had a right to terminate the Contract and did so in a lawful manner.

[8] The Defendants brought a motion before this Court for an Order dismissing this action for want of jurisdiction under Rule 221(1)(a), or alternatively, for a stay pursuant to paragraph 50(1)(b) of the Act in favour of a comprehensive action in a provincial court. The Plaintiff states that, to the best of its knowledge, the Defendants have not initiated any actions in a provincial court for the relief claimed in their counterclaim.

[9] Prothonotary Milczynski dismissed the Defendants’ motion by way of Order dated 9 October 2012. The Defendants now appeal that Order.

THE ORDER UNDER REVIEW

[10] Prothonotary Milczynski was not satisfied that it was plain and obvious that the action could not succeed for want of jurisdiction, and found no basis to order that the action be stayed.

[11] The Defendants asserted that the contractual issues raised by the counterclaim were not ancillary, but went to the heart of the matter. The Defendants claimed that it was the intellectual property issues that were ancillary to the “live and operative” contractual issues in dispute. The Defendants argued that contractual matters are beyond the jurisdiction of the Federal Court, and/or that a provincial superior court has concurrent jurisdiction over intellectual property, as well as jurisdiction over contract disputes, and so the parties ought to go to a provincial court which can comprehensively adjudicate all the issues.

[12] Prothonotary Milczynski did not accept the Defendants’ arguments. She found that the entirety of the Statement of Claim was based on intellectual property issues, which are within the jurisdiction of the Federal Court. The fact that some issues of contract may be reviewed by the Court in the overall consideration of the dispute does not displace that jurisdiction. The key point is that the proceedings are founded upon federal law. As the Supreme Court of Canada held in *ITO-International Terminal Operators Ltd. v Miida Electronics Inc.*, [1986] 1 SCR 752 [ITO]:

The Federal Court is constituted for the better administration of the laws of Canada. It is not, however, restricted to applying federal law in cases before it. Where a case is in “pith and substance” within the court’s statutory jurisdiction, the Federal Court may apply provincial law incidentally necessary to resolve the issues presented by the parties...

[13] In *Innotech Pty. Ltd. v Phoenix Rotary Spike Harrows Ltd.*, [1997] FCJ No 855 [Innotech], the Federal Court of Appeal held as follows at paragraphs 2-4:

The statement of claim in this action alleges infringement of the appellant’s patent by Phoenix and others. In its statement of defence Phoenix alleged that it acted under a license and was therefore not liable. It also filed a counterclaim seeking a declaration as to the validity of the license, injunctions for its enforcement, and damages for the alleged breach by the appellant of the license.

The learned motions judge concluded as follows:

The Statement of Claim alleges that infringement has taken place since these defendants have, without permission or license, used the plaintiff's patent. It is, however, the defendants' contention that their use of the invention was at all times under a valid license. That pleading is central to their defence. It also alleges that it is the plaintiff who has acted in breach of the terms of the license, wherefore it is the defendants who will be entitled to the customary kind of relief granted at trial, be it injunctive or monetary. In my opinion, the Counterclaim does no more than particularize the basis of the grievance claimed by the defendants. The license which forms the basis of the Counterclaim is the same one that forms the basis of the defence of non-infringement.

[...]

With respect, it appears to us that although it is the same license which is involved in both the statement of defence and the counterclaim, it is invoked for a different purpose in each pleading. In the statement of defence it is being used as a shield against a claim of infringement. In the counterclaim it is being used as a sword, a basis for obtaining remedies against the appellant for its enforcement. The counterclaim, when viewed by itself, would stand alone as an action for breach of contract and as such is not within the jurisdiction of this Court. Using the language of *Kellogg v. Kellogg* the main action is primarily for the enforcement of a patent. That claim can be decided on the basis of the statement of claim and the statement of defence, and incidental to that determination the license, its existence, terms, and validity may well have to be considered. ...

[14] Prothonotary Milczynski found the same reasoning applied to this proceeding; the Plaintiff relied exclusively on its intellectual property rights and the licensing and distribution agreement was being used by the Defendants as a shield against those claims. Also in a similar way to *Innotech*, the contract is being used in the counterclaim by the Defendants as a sword for obtaining remedies against the Plaintiff. Prothonotary Milczynski was satisfied that the Plaintiff's case was within the jurisdiction of the Federal Court, even if some contractual issues would have to be considered.

[15] Prothonotary Milczynski was also not satisfied that staying the proceeding in favour of an action in its entirety being brought in a provincial court was just or appropriate in the circumstances. A determination of validity or claim for injunctive relief would still need to return to the Federal Court to have effect and apply nationally.

[16] The Defendants did not establish that continuing the action in the Federal Court would be an injustice or constitute an abuse. The Defendants would still be able to commence their action for breach of contract in a provincial court. Prothonotary Milczynski found there was no reason to strike the action or stay the proceeding in favour of another court.

ISSUE

[17] The Defendants submit the following issue in this motion:

- a) Did Prothonotary Milczynski err in law and/or in the exercise of her discretion in dismissing the Defendants' Motion?

STANDARD OF REVIEW

[18] In *Canada v Aqua-Gem Investments Ltd.*, [1993] 2 FC 425 (CA) the Federal Court of Appeal set out at paragraph 95 that a discretionary decision of a Prothonotary ought not to be disturbed on appeal unless it can be shown that:

- (a) they are clearly wrong, in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts, or
- (b) in making them, the prothonotary improperly exercised his discretion on a question vital to the final issue of the case.

Where such discretionary orders are clearly wrong in that the prothonotary has fallen into error of law (a concept in which I include a discretion based upon a wrong principle or upon a misapprehension of the facts), or where they raise questions vital to the final issue of the case, a judge ought to exercise his own discretion *de novo*.

[19] The Defendants submit that the learned Prothonotary exercised her discretion based upon a misapprehension of the pleaded facts and an error of law, and this involves questions vital to the final issue of the case. As such, the Defendants submit that this Court ought to exercise its discretion to decide the matter *de novo* and reverse the Order.

[20] The Defendants also submit that Prothonotary Milczynski further erred in her exercise of discretion as her decision is clearly wrong and based on error(s) of law.

ARGUMENTS

The Defendants

[21] The Defendants submit that it is the Amended Statement of Claim that must be looked at to determine if the relief sought by the Plaintiff requires the determination of a contractual issue. They submit that Prothonotary Milczynski erred for the following reasons:

- She failed to find that the matter at hand is primarily one of property and civil rights;
- She assumed the Contract was lawfully terminated on 19 January 2010;
- She failed to find that the intellectual property issues alleged by the Plaintiff were ancillary to the central issues of contract, termination, notice, mitigation and negligent/intentional misrepresentation put forward by the Defendants;

- She failed to distinguish the facts of this case from those of *Innotech*, and failed to apply the reasoning and law set out in *Engineering Dynamics Ltd. v Joannou*, [1996] FCJ No 1348 [*Engineering Dynamics*];
- She failed to give effect to the law and jurisdiction of the Contract, which is either the law of the Province of Quebec or the State of Ohio; and
- In the alternative, she failed to stay the within action in the interests of justice in favour of a more comprehensive action to be brought in a provincial superior court or a court in Ohio.

[22] The Defendants submit that the matter before this Court is, in pith and substance, one of property and civil rights, and that any intellectual property issues are merely ancillary. This action depends upon a determination of:

- The legality of the termination of the Contract;
- The right of Regal to be afforded proper notice of termination;
- The mitigation of damages by Regal caused by the Plaintiff's alleged breach of the Contract;
- The Plaintiff's negligent and/or intentional misrepresentation concerning the discontinuance of the product in Canada and the implied abandonment of the associated intellectual property in Canada.

[23] The Defendants submit that these are all important and primary issues that are based on contract and provincial common law. Section 92 of the *Constitution Act* grants powers pertaining to property and civil rights to the provinces. Further, the Federal Court only has jurisdiction to

entertain actions firmly grounded in federal legislation (*Canadian Pacific Ltd. v Quebec North Shore Paper Co.*, [1977] 2 SCR 1054; *R. v McNamara Construction (Western) Ltd.*, [1977] 2 SCR 654).

[24] The Plaintiff pleads that the Contract was lawfully terminated in paragraph 19 of its Amended Statement of Claim, and joins the issue on termination in paragraph 12 of its Reply and Defence to Counterclaim. The Defendants pleads that the Contract was unlawfully terminated. Therefore, a determination of the lawfulness of the Contract is a condition precedent to consideration of the Plaintiff's claims of infringement.

[25] The Defendants submit that the legality of the purported termination of the Contract is the central issue in this case. This is obviously a contractual matter, and thus outside the jurisdiction of this Court. It is plain and obvious that the Plaintiff's action cannot succeed, or otherwise access federal law, if the Contract was not lawfully terminated. If the termination was not lawful, there was no infringement.

[26] Subsection 20(2) of the *Federal Courts Act* grants the Federal Court concurrent (not exclusive) jurisdiction over intellectual property. However, these issues must be the primary issues to be resolved for the Court to have jurisdiction, and cannot be merely ancillary. The Defendants submit that this is in essence a commercial dispute that arose at the end of a long-term contractual arrangement. In *Lawthier v 424470 BC Ltd.*, [1995] FCJ No 549 [*Lawthier*] at paragraphs 5-6, the Court held as follows:

This Court has no jurisdiction to entertain a dispute which is solely a matter of contract. However, it will entertain an action which involves a contractual dispute, if the action primarily concerns a patent, trade mark or copyright. In this case, the pleadings disclose that the principal issue is whether or not the Plaintiff is entitled, in

Canada, to a reassignment of the Patent. The Defendant alleges that the Plaintiff was offered an option to reacquire the patent but that the Plaintiff refused to pay the agreed price and that the option has lapsed. The central issue would seem to be the nature of the option agreement and whether or not the parties have complied with its terms.

In my view, the determination of this contractual issue will dictate ownership of the patent and the appropriate relief in respect of the patent. For this reason, I have concluded that this is primarily a case in contract and that the patent issues are ancillary. Accordingly, this Court is without jurisdiction. The Plaintiff should pursue his rights in the Supreme Court of British Columbia. As Mr. Justice Dubé noted in *Laurin v. Champagne* (1991), 38 C.P.R. (3d) 193 (F.C.T.D.) at p. 196, the Plaintiff may apply to this Court in the future to vary the registration of the Assignment should such an application be required.

[27] The Defendants further submit that Prothonotary Milczynski misapplied the reasoning in *Innotech*, above. In that case, it was the plaintiff who moved to have the defendant's counterclaim struck. The defendant had pleaded that it had permission to use the intellectual property by way of a sublicense or implied license from a third party. The defendant had no pre-existing direct or contractual relationship with the plaintiff in that case. It was held that the counterclaim was a stand-alone claim in contract, and was struck. However, the Federal Court of Appeal did not speak to its jurisdiction to determine contractual issues of an existing contract between the parties.

[28] This issue was addressed in *Engineering Dynamics*, above, where Prothonotary Morneau explained as follows at paragraph 14:

However, when consideration of the remedies sought inevitably involves determining a breach or nullity of a contract between individuals, the Court, even though the matter may be one of intellectual property, or I would add in any other area, must decline jurisdiction in favour of the provincial courts.

[29] The Defendants submit that Prothonotary Milczynski erred at law by failing to follow and apply *Engineering Dynamics*. In particular, she failed to give effect to the following facts which are apparent on the face of the pleadings:

- The parties had an 18-year distributing and licensing relationship which in 2010 was either governed by the Contract, as the Defendants plead, or an unwritten agreement, as the Plaintiff pleads;
- On 19 January 2010, the Plaintiff wrote to Regal saying that it intended to discontinue the Candy Cane product line in Canada, which as a necessary consequence meant that it was abandoning use of the associated intellectual property in Canada;
- In an attempt to mitigate its damages, Regal second sourced the Candy Cane product, and sold said product for a single selling season, namely Christmas, 2010;
- The Contract expressly provides that notice of termination without cause must be accompanied by a payment of \$25,000. No such payment was delivered or alleged to be delivered;
- The Contract provides that the choice of law and jurisdiction for any dispute thereunder shall be the laws of the State of Ohio.

[30] The Defendants submit that if a Court finds that the Contract was not extended after its explicit ten-year term, then the law applicable to the unwritten contractual relationship between the parties must be the law of one of their respective residences, namely Quebec or Ohio.

[31] Based on the above, the Defendants submit that on any analysis it is plain and obvious that the intellectual property issues in this case are incidental or ancillary to the main question of the

lawfulness of the termination of the Contract. The intellectual property issues only arise if the alleged termination was lawful. Even then, the only operative issue is one of damages, which necessarily depends on the contractual findings.

[32] The termination of the Contract (or contractual relationship) and the related issues concerning notice, mitigation, and negligent or intentional misrepresentation are all outside the statutory jurisdiction of the Federal Court. The Defendants submit that the Court should exercise its jurisdiction to strike out these pleadings for want of jurisdiction under Rule 221(1)(a).

[33] The Defendants point out that the provinces have concurrent jurisdiction for the intellectual property issues pleaded in this action, and exclusive jurisdiction for the contractual issues. A provincial court would therefore be jurisdictionally able to comprehensively adjudicate the matter. The Defendants submit that they are entitled to defend themselves in one court, and should not be obliged to bring a multiplicity of proceedings to mount all their defences to the Plaintiff's allegations. The Defendants request that the Court exercise its discretion to stay these proceedings under paragraph 50(1)(b) of the *Federal Courts Act*.

The Plaintiff

[34] The Plaintiff submits that the decision in *ITO* established that the Federal Court may apply provincial law to proceedings otherwise founded on federal law and within the Court's jurisdiction. The presence of a contractual element to a dispute will not preclude the Federal Court's jurisdiction, provided the subject matter of the action primarily concerns a patent, trade-mark or copyright.

[35] In *Kellogg Co. v Kellogg*, [1941] SCR 242, the Supreme Court made the following statement:

...the Exchequer Court has no jurisdiction to determine an issue purely and simply concerning a contract between subject and subject ...but here the subject-matter of the appellant's allegation only incidentally refers to the contract of employment between John L. Kellogg, Jr., and the appellant. The allegation primarily concerns the invention alleged to have been made by him and of which the appellant claims to be the owner as a result of the contract and of the other facts set forth in the allegation. The contract and the claims based thereon are advanced for the purpose of establishing that the appellant is entitled both to the rights deriving from the invention and to the issue of a patent in its own name.

[36] The Plaintiff submits that the *Innotech* decision, at paragraph 4, is similar to the case at bar:

With respect, it appears to us that although it is the same license which is involved in both the statement of defence and the counterclaim, it is invoked for a different purpose in each pleading. In the statement of defence it is being used as a shield against a claim of infringement. In the counterclaim it is being used as a sword, a basis for obtaining remedies against the appellant for its enforcement. The counterclaim, when viewed by itself, would stand alone as an action for breach of contract and as such is not within the jurisdiction of this Court. Using the language of *Kellogg v. Kellogg* the main action is primarily for the enforcement of a patent. That claim can be decided on the basis of the statement of claim and the statement of defence, and incidental to that determination the license, its existence, terms, and validity may well have to be considered. ...

[37] In a related decision to *Innotech*, (*Innotech Pty. Ltd. v Phoenix Spike Harrows Ltd.*, (1997) 75 CPR (3d) 27 (FC) [*Innotech 2*]), it was re-iterated that the Federal Court's jurisdiction extends to the consideration of a licence, its existence, terms and validity where those are incidental to the primary issues of infringement.

[38] In this case, the Plaintiff's claims relate exclusively to trade-mark and copyright, specifically:

- Trade-mark infringement, passing-off and depreciation of goodwill pursuant to the *Trade-marks Act*; and
- Copyright infringement pursuant to the *Copyrights Act*.

[39] The Plaintiff does not invoke the licence as part of its claim. It is the Defendants who raise the licence by relying on it as a defence and using it as a shield against the claim of infringement. The Defendants also use the licence as a sword and as a basis for obtaining remedies against the Plaintiff in their counterclaim.

[40] The Plaintiff states that the circumstances in *Innotech* were virtually identical to the ones at bar, and that the matter in that case was determined to be within the jurisdiction of the Federal Court. Further, the contractual considerations which the Defendants state must be considered for the adjudication of the claim do not preclude the Federal Court from maintaining jurisdiction. As articulated in the above case law, these types of contractual considerations are within the scope of matters that can be determined by the Court when incidental to an action that is primarily in respect of trade-mark, copyright or patent.

[41] Furthermore, the contractual issues listed by the Defendants that deal with damages from the purported wrongful termination are irrelevant to the Plaintiff's claim. Those questions are the subject matter of the Defendants' counterclaim.

[42] The Plaintiff submits that the cases relied up by the Defendants do not support the conclusion that the Court is without jurisdiction to adjudicate this matter. Those cases do not involve allegations of infringement of patents, copyrights or trade-marks, but consist only of claims to relief depending solely on contractual interpretation.

[43] In *Engineering Dynamics*, the plaintiff sought a declaration of ownership of certain patents. The Court found this issue was entirely dependant on contract, and contrasted it with actions which primarily concern intellectual property issues.

[44] In *Lawthier*, above, the issue was whether or not, by contract, the plaintiff was entitled to reassignment of a patent. This was contrasted to cases which involve contractual disputes, but where the action primarily concerns intellectual property. The Court held the central issue to be contractual, specifically the nature of an option agreement and whether or not the parties had complied with its terms.

[45] The Plaintiff submits that its claim is squarely within the jurisdiction of the Federal Court. The Defendants' reliance on the licence as a shield does not preclude the Court from adjudicating upon the Plaintiff's claim, which relates exclusively to trade-mark and copyright and only incidentally to certain related contractual matters. The Plaintiff submits that the Defendants' request that the claim be struck for want of jurisdiction be rejected.

[46] As regards the Defendants' request for a stay, the Plaintiff submits that the discretionary power to grant a stay ought only to be exercised in the clearest of cases. The Defendants have not demonstrated there is any basis for justifying a stay of the Federal Court action in favour of a non-existent Quebec Superior Court action.

[47] Nor have the Defendants demonstrated that the continuance of this action in the Federal Court would work an injustice because it would be oppressive, vexatious or an abuse of process in some other way. Inconvenience to a party does not in and of itself constitute sufficient special circumstances for the granting of a stay or for the Court to assume or relinquish jurisdiction

(*Advanced Emissions Technologies Ltd. v Dufort Testing Services Ltd.*, 2006 FC 794 at paragraphs 8-9; *White v E.B.F. Manufacturing Ltd.*, 2001 FCT 713 [*White*] at paragraph 5).

[48] In *Innotech 2*, the defendant requested a stay on the basis that a provincial court would be able to adjudicate upon all the issues, including reliance on a contract as a shield in the statement of defence and as a sword in the counterclaim. The Court held that both courts could determine the validity of the contract, but neither court could deal with all the remaining issues between the parties at paragraphs 4-8:

The defendant's basic argument is that the Court of Queen's Bench of Alberta can determine all issues relating to the licence agreement whereas the Federal Court's jurisdiction is limited. As to the lateness of seeking this stay in proceedings that commenced in 1993, the defendants say it was the plaintiff's delay in moving to strike the defendants' counterclaim that caused the delay and they should not be held accountable for the delay.

The stay application will be dismissed for the following reasons. First, I do not think the defendants' characterization of comprehensiveness as between the Alberta Queen's Bench and the Federal Court accurately describes the situation in this case. According to the Federal Court of Appeal's decision of June 18, 1997, the Federal Court may decide the plaintiff's patent infringement action and incidental thereto, may consider "the licence, its existence, terms, and validity". The Federal Court may therefore decide, as fully as the Alberta Queen's Bench, questions relating to validity and subsistence insofar as the licence is concerned.

What the Federal Court may not do is deal with the relief to which the defendants may be entitled in the event it is determined the licence is valid and subsisting. That will have to be pursued by the defendants in their Alberta action.

However, the Alberta Court of Queen's Bench will not deal with the question of patent infringement (unless the plaintiff was to counterclaim for patent infringement in the Alberta action, which it is not obliged to do) and the parties will have to return to the Federal Court even if this action is stayed pending the determination of the

validity of the licence agreement by the Alberta Court of Queen's Bench.

In the result, both the Alberta Court of Queen's Bench and the Federal Court may decide the question of validity and subsistence respecting the licence, but neither court will deal with all remaining issues between the parties. For this reason I do not accept the defendants comprehensiveness argument.

[49] The Plaintiff submits that the reasoning in *Innotech 2* is directly applicable to the case at bar.

[50] Further, even if the Plaintiff were to counterclaim the hypothetical provincial court action, the provincial court could only grant injunctive relief within the province. The parties would have to return to Federal Court to get injunctive relief on a national level (*White*).

[51] Finally, the Defendants have advanced a counterclaim in Federal Court and maintained the position that they are entitled to request the relief sought therein from the Federal Court. This is contradictory to their position that the Plaintiff's claim ought to be struck for want of jurisdiction. The Plaintiff submits that the Defendants' request for a stay ought to be rejected.

ANALYSIS

[52] The parties have, essentially, argued the same case before me that they argued before Prothonotary Milczynski. There is no real ground for saying that the questions raised before me on a refusal to strike are vital to the final issue in the case (see *Chrysler Canada Inc. v Canada*, 2008 FC 1049 at paragraph 4), or that the refusal to stay the action in this Court is vital to the final issue, and the parties agreed on this at the hearing before me.

[53] The only issue before me is whether Prothonotary Milczynski's decision should be disturbed because it was clearly wrong for being based upon a wrong principle or upon a misapprehension of the facts.

[54] In her reasoning and conclusions Prothonotary Milczynski relied upon and applied well-recognized authorities (*ITO*, above, at paragraphs 29-30 and *Innotech*, above) to conclude that the Plaintiff's case is within the jurisdiction of this Court even if, incidentally, some consideration will have to be given to contractual issues.

[55] The *Innotech* case, above, at paragraphs 2-4, is very close to the case at bar:

The statement of claim in this action alleges infringement of the appellant's patent by Phoenix and others. In its statement of defence Phoenix alleged that it acted under a license and was therefore not liable. It also filed a counterclaim seeking a declaration as to the validity of the license, injunctions for its enforcement, and damages for the alleged breach by the appellant of the license.

The learned motions judge concluded as follows:

The Statement of Claim alleges that infringement has taken place since these defendants have, without permission or license, used the plaintiff's patent. It is, however, the defendants' contention that their use of the invention was at all times under a valid license. That pleading is central to their defence. It also alleges that it is the plaintiff who has acted in breach of the terms of the license, wherefore it is the defendants who will be entitled to the customary kind of relief granted at trial, be it injunctive or monetary. In my opinion, the Counterclaim does no more than particularize the basis of the grievance claimed by the defendants. The license which forms the basis of the Counterclaim is the same one that forms the basis of the defence of non-infringement.

It would therefore be inappropriate to microscopically sever the one pleading from the

other. The plaintiff's application is therefore dismissed. Costs in the cause.

With respect, it appears to us that although it is the same license which is involved in both the statement of defence and the counterclaim, it is invoked for a different purpose in each pleading. In the statement of defence it is being used as a shield against a claim of infringement. In the counterclaim it is being used as a sword, a basis for obtaining remedies against the appellant for its enforcement. The counterclaim, when viewed by itself, would stand alone as an action for breach of contract and as such is not within the jurisdiction of this Court. Using the language of *Kellogg v. Kellogg* the main action is primarily for the enforcement of a patent. That claim can be decided on the basis of the statement of claim and the statement of defence, and incidental to that determination the license, its existence, terms, and validity may well have to be considered. But the counterclaim which must be viewed as a distinct action primarily involves a claim for an alleged breach of contract.

[56] The cases cited by the Defendants do not contradict this jurisprudence as regards the basic principles applicable to this case, and they are entirely distinguishable on their facts. *Engineering Dynamic* involved a declaration of ownership of intellectual property and did not involve patent, copyright or trademark infringement. Similarly, in *Lawthier*, the issue was not infringement, but whether a patent had been reassigned to the plaintiff by the defendant. The sole issue was contractual.

[57] In the present case, Prothonotary Milczynski correctly found that the Plaintiff's claims related exclusively to trademark and copyright infringement and that all remedies sought by the Plaintiff arise under the *Trade-marks Act* or the *Copyright Act*. Even if the Defendants admit to infringement of the Plaintiff's intellectual property right, this does not change the essential nature of the claim or prevent this Court from dealing with ancillary contractual issues.

[58] There is nothing in the materials before me to suggest that Prothonotary Milczynski misapprehended any relevant fact. Essentially, the Defendants argue before me that, although the Prothonotary does have regard for the contractual issues in her decision, she does not ask or address the question as to whether this is a case that is really about contractual issues. A reading of the Decision as a whole reveals that this issue is fully addressed. It is simply the Defendants' view that the case will turn on contractual issues. In considering a motion to strike under Rule 221, Prothonotary Milczynski must have regard to the pleadings. Prothonotary Milczynski examined the pleadings in this case, and determined that the claim is about trademark and copyright infringement. Contractual issues will come into play – which is fairly typical – but this does not exclude the Court's jurisdiction. The fact that the Defendants are of the view that contractual issues will decide the matter is nothing more than the Defendants' view. In any event, there is no privity of contract between the Plaintiff and the Defendant, Karma Candy Inc.

[59] In submissions before me, the Defendants concede that the counterclaim is beyond the jurisdiction of this Court. As the case law reveals, however, that is not a ground for excluding the Plaintiff from this Court for its intellectual property infringement claim. I agree with the Plaintiff that to find the Court did not have jurisdiction would be extraordinary because, at least on the pleadings, there is nothing atypical about this case.

[60] The request for a stay was also appropriately refused by the Prothonotary. The situation in *Innotech 2*, above, bears a striking resemblance to the present situation. The stay request was rejected by Justice Rothstein, as the claimed “comprehensiveness” argument was held to be unconvincing. The Court held that both the Federal and Provincial Courts could determine the

validity of the contract, but neither Court would deal with all remaining issues. Mr. Justice

Rothstein wrote:

The defendant's basic argument is that the Court of Queen's Bench of Alberta can determine all issues relating to the licence agreement whereas the Federal Court's jurisdiction is limited. [...]

The stay application will be dismissed for the following reasons. First, I do not think the defendants' characterization of comprehensiveness as between the Alberta Queen's Bench and the Federal Court accurately describes the situation in this case. According to the Federal Court of Appeal's decision of June 18, 1997 [reported 74 C.P.R. (3d) 275], the Federal Court may decide the plaintiff's patent infringement action and incidental thereto, may consider "the licence, its existence, terms, and validity". The Federal Court may therefore decide, as fully as the Alberta Queen's Bench, questions relating to validity and subsistence insofar as the licence is concerned.

[61] As the Plaintiff points out, even if they were to counterclaim in the hypothetical provincial court action, which the Defendants have stated they have no intention of starting, the provincial court could only grant injunctive relief within the province. To adjudicate the issue of an injunction on a national scale, the parties would have to return to the Federal Court.

[62] The Plaintiff's claim includes a second Ontario-based Defendant, Karma Candy Inc. The Plaintiff remains fully entitled to prosecute that claim in this Court, and it would be inappropriate to require the Plaintiff to pursue that claim in other jurisdictions, such as Quebec. Comprehensive relief for the Plaintiff is best available in the Federal Court.

[63] The principles for a stay in this context are set out in *White*, above, at paragraph 5:

Paragraph 50(1)(a) of the Act provides that the Court may in its discretion stay proceedings in any cause or matter on the ground that the claim is being proceeded within another Court or jurisdiction. The jurisprudence in the matter has established several useful criteria to determine whether such a stay should be granted. (*Discreet Logic Inc. v. Canada (Registrar of Copyrights)* 1993 CarswellNat 1930, 51 C.P.R. (3d) 191, affirmed (1994), 55 C.P.R. (3d) 167 (Fed. C.A.); *Plibrico (Canada) Limited v. Combustion Engineering Canada Inc.*, 30 C.P.R. (3d) 312 at page 315; *Ass'n of Parents Support Groups v. York*, 14 C.P.R. (3d) 263; *Compulife Software Inc. v. Compuoffice Software Inc.*, 1997 CarswellNat 2482, 77 C.P.R. (3d) 451, 143 F.T.R. 19; *94272 Canada Ltd. v. Moffatt*, 31 C.P.R. (3d) 95 and *General Foods v. Struthers*, [1974] S.C.R. 98). They are abridged and assembled as follows for convenience.

1. Would the continuation of the action cause prejudice or injustice (not merely inconvenience or extra expense) to the defendant?
2. Would the stay work an injustice to the plaintiff?
3. The onus is on the party which seeks a stay to establish that these two conditions are met;
4. The grant or refusal of the stay is within the discretionary power of the judge;
5. The power to grant a stay may only be exercised sparingly and in the clearest of cases;
6. Are the facts alleged, the legal issues involved and the relief sought similar in both actions?
7. What are the possibilities of inconsistent findings in both Courts?
8. Until there is a risk of imminent adjudication in the two different forums, the Court should be very reluctant to interfere with any litigant's right of access to another jurisdiction;
9. Priority ought not necessarily be given to the first proceeding over the second one or, vice versa.

[64] In my view, the Defendants the present case have not satisfied any of these factors. In particular, there can be no possibility of inconsistent findings when the Defendants have not undertaken an action in any other jurisdiction and there is no indication they ever will.

[65] Even if an alternative action were started in the future, the words in *White*, above, at paragraphs 11 and 12, would still apply:

In my view, the continuation of this action in the Federal Court would not cause prejudice to the defendants. Of course, it may result in extra expenses and further inconvenience to the defendants, but these matters can always be remedied by way of costs. The power to grant a stay may indeed only be exercised sparingly and in the clearest of cases: this is not an obvious case favouring a stay. There are two egregious differences between the Nova Scotia proceedings and the Federal Court proceedings: three defendants have been added to the federal case and the plaintiff now seeks injunctive relief on a national scale in his federal action. Even if the factual situation and some of the legal issues may be similar in both actions, the relief sought is different.

As to the possibilities of inconsistent findings in the two Courts, it is to be expected that the plaintiff will concentrate on his federal injunctive relief before obtaining a judgment from the Nova Scotia Court. There is no risk of imminent adjudication in the two different forums and, in that sense, it would be premature for me to interfere with the plaintiff's right of access to the Federal Court. It is presumed that he is now more interested in seeking a national injunction and will conduct himself accordingly.

[66] There was nothing before Prothonotary Milczynski, and there is nothing before me, to suggest that a stay should be considered in this case.

[67] In conclusion, there is no indication that Prothonotary Milczynski's decision was based upon a wrong principle or upon a misapprehension of the facts. I am entirely in agreement with it.

ORDER

THIS COURT ORDERS that

1. The appeal is dismissed.
2. The parties are at liberty to address the Court on the issue of costs and should do so, initially at least, in writing.

“James Russell”

Judge

FEDERAL COURT

NAME OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: T-1866-11

STYLE OF CAUSE: **THE SPANGLER CANDY COMPANY**
- and -
**3651410 CANADA INC., C.O.B. REGAL
CONFECTIONS INC. AND KARMA CANDY INC.**

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: February 13, 2013

**REASONS FOR ORDER
AND ORDER:** HON. MR. JUSTICE RUSSELL

DATED: March 8, 2013

APPEARANCES:

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Serge Anissimoff **DEFENDANTS**

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