



NEWSLETTER

Canadian IT Law Association

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This newsletter is prepared by Professors [Anne Uteck](#) and [Teresa Scassa](#) of the Law and Technology Institute of [Dalhousie Law School](#).

Les auteurs du présent bulletin sont les professeurs [Anne Uteck](#) et [Teresa Scassa](#) de l'Institut de droit et de technologie de la [Faculté de droit de l'Université de Dalhousie](#).

Civil Liability

IN *BONGELI V. CITIBANK CANADA*, **TRAFFORD J.** of the Ontario Superior Court considered an action for damages brought by the plaintiff flowing from criminal charges laid, and subsequently dropped. The plaintiff was working as a customer service representative for the defendant bank under a contract between the bank and his employer. He was charged with attempted fraud and unauthorized use of a computer and removed from the premises of the bank. He subsequently lost his job with the company which employed him as a result of the charges. The charges were later withdrawn. The plaintiff filed suit against the bank "because the allegations of crime made by its employees in the complaint filed with the police on February 12, 2002, were false." (at para 5). After reviewing the evidence, **Trafford J.** dismissed the action, finding that the bank and its employees "proceeded with a reasonably careful investigation" (at para 48), and that the bank "had a duty to ensure the confidentiality of its cardholders accounts." (at para 48) Further, he found that no one from the bank was involved in the decision by the police to lay charges, and that the detective who laid the charges had reasonable grounds to believe that the alleged crimes had been committed by Mr. Bongeli.

IN *GARDINER V. I2 TECHNOLOGIES INC.*, ([2004] O.J. No. 3288) the plaintiff **Gardiner** sued for negligent misrepresentation. He alleged that he left his position as Director and Chief Financial Officer of one company to join the defendant company on the basis of allegedly "untrue, inaccurate or misleading statements" by the defendant **i2** which led him to believe he would be groomed to be President of **i2**. In the end, he lost his employment with **i2** after

19 months, following a significant downsizing and reorganization of the company.

Lax J. of the Ontario Superior Court found that there was no negligent misrepresentation with respect to the value of the stock options and the expectations for the growth of the value of the shares of **i2**. **Lax J.** found that "Gardiner is a very intelligent and sophisticated individual with considerable business experience, particularly in finance. He knew that share prices generally, and specifically in the volatile technology sector, cannot be predicted." (at para 24). Further, **Lax J.** found that the defendant's optimistic statements about the future value of the company "cannot amount to negligent misrepresentation because Gardiner did not rely on them. Any such reliance would have been unreasonable, if not foolish..." (at para 24). The Court noted that Gardiner did his own due diligence, and was, in any event, hoping for a low stock value when he started with the company, so as to maximize the value of his stock options on starting with the company.

Lax J. also found that there were no negligent misrepresentations regarding the stability of **i2**. He found that there was "simply no evidence that representatives of **i2** who met with Gardiner in January had any knowledge that **i2** would be downsizing within a few months." (at para 28) He also noted that "nobody could have known of the events of September 11 and the devastating effect it would have on the global economy and particularly the technology sector." (at para 28) **Lax J.** further noted that "Gardiner accepted employment with knowledge of the hiring freeze, with knowledge of the precipitous decline in the technology sector, and with a termination provision in his Employment Agreement that he concedes was not exactly a promise of job security." (at para 29)

Lax J. also rejected arguments of negligent misrepresentation in relation to financial statements of **i2**. Original financial statements for the relevant years showed a loss of \$1.752 billion. Revised financial statements set the loss at \$2.0275 billion.

The court rejected arguments that had Gardiner known the restated revenue figures he would not have accepted the position. Lax J. noted that Gardiner had not been troubled by the losses of \$1.752 billion, and that, in any event, he had never actually read the original financial statements. Further, he noted that “i2 owed no duty of care to Gardiner as a prospective employee for pure economic losses sustained in reliance on financial statements prepared for a different purpose.” (at para 40) Claims for breach of contract and unpaid commissions also failed.

Civil Procedure

IN *UNIFORM CUSTOM COUNTERTOPS INC. v. Royal Designer Tops Inc.*, ([2004] O.J. No. 3306) Hoy J. of the Ontario Superior Court granted an application to set aside an Anton Piller Order on the basis of material non-disclosure of facts by the plaintiffs. The Order had originally been obtained based on allegations that created an “aura of fraud and dishonesty” around the conduct of the defendants. (at para 25) The plaintiffs alleged that a former one-third shareholder and director of their company had taken with him software used in the business, as well as confidential information, when was bought out and started up a competitor company.

Although Hoy J. found that the software had likely been taken, he found that “the plaintiffs failed to disclose material facts known to them that would have shown that the damage, potential or actual, was not very serious to the plaintiffs.” (at para 13). There was evidence that the software licence and source code were not particularly valuable assets, and were not central to the operation of the business. Further, he found that the former director “did not know that it was unlawful to take computer programs without permission.” (at para 23) Thus, his conduct was not deliberately dishonest.

IN *LEADBEATER V. DCS SYSTEMS LTD.*, 2004 ABQB 622, Master Alberstat dealt with an issue of costs. He disallowed a claim for Quicklaw charges, noting: “I am satisfied that the weight of authority in this province is to the effect that electronic research is to be treated as a substitute for lawyers’ time and is compensated for by the fees awarded under Schedule C.” (at para 18).

Criminal Law

Two recent sentencing decisions in cases involving Internet child pornography give an indication of factors taken into account by courts in arriving at an appropriate sentence. In *R. v. Kasam*, (2004 ONCJ 136) the Ontario Court of Justice sentenced a disabled man to a 12 month conditional sentence to be served in the community, followed by three years of probation. A compact disc with 3200 images of child pornography was found in the possession of the accused, along with 39 graphic video clips, and 600 further images stored on his computer. The compulsory conditions attached to the sentence included a ban on the use of email and the Internet, and a ban on use of a computer without supervision. Reinhardt J. reluctantly imposed the conditional sentence, noting that “it is important to take into account the specific and unusually extreme disabilities and afflictions which Mr. Kasam suffers from, and not lose sight that for a person with his limitations and fragility, incarceration in a jail is harsher than incarceration might be for a healthy individual.” (at para 42). In *R. v. Starr*, (2004 NBQB 296) Garnett J. of the New Brunswick Court of Queen’s Bench sentenced the defendant to a six month conditional sentence to be served in the community. The conditions include a ban on the possession or use of any computer or computer components “unless required by his employer to use a computer owned and controlled by his employer, in the course of his employment and on the employer’s premises.” (at para 17). The accused had 18 child pornographic photos and 2 child pornographic videos stored on his home computer. The judge apparently did not accept the accused’s position that “he was downloading the material as a research project so he could make the Internet safe for children.” Garnett J. was similarly unimpressed with the accused’s statement that he intended to continue with this research.

Domain Names

IN *LAW SOCIETY OF BRITISH COLUMBIA v. Canada Domain Name Exchange Corporation*, the British Columbia Supreme Court ruled that the British Columbia Law Society was entitled to a permanent injunction to restrain the defendant company from using or transferring domain names registered in

the defendant's name and awarded \$4000 damages for associating the name of the Law Society with a pornographic website. The defendant, Canada Domain Name Exchange Corporation, registered "lawsocietyofbc.ca" and lsbc.ca" with the Canadian Internet Registration Authority (CIRA). Both names linked to pornographic websites. The Law Society of British Columbia operated and maintained internet websites under the domain names "lawsociety.bc.ca" and lsbc.org". The Court rejected the defendant company's argument that "lawsocietyofbc.ca" stood for Law Society of Barristers Categories and "lsbc.ca" stood for "Love Sites By Category" ruling that it was inappropriate for the defendant to use derivatives of the Law Society of British Columbia's name. The Court held that the use of the domain name itself, which may divert internet users looking for the Law Society of British Columbia website to a different site, amounts to a passing off at common law. The plaintiff, according to the Court, had established the three components to succeed in a passing off action: the existence of substantial goodwill in the name "Law Society of B.C."; a misrepresentation by the defendant's registration and use of the domain names to redirect traffic to a different website for its commercial benefit; and finally, although the plaintiff did not show any actual damage, it was, in the Court's view, "self-evident" that potential damage flows to the plaintiff as a result of any misrepresentation due to loss of control over its reputation and goodwill.

IN A RECENT CANADIAN INTERNET REGISTRATION Authority (CIRA) Decision, the complainant, AMAZON.COM Inc. is a well-known internet marketer, originally creating a website under the domain name AMAZON.COM in 1995. Its business now includes six global websites, including www.amazon.ca, which has operated since June 2002. The Complainant registered the trade-marks AMAZON, AMAZON.CA and AMAZON.COM (the "AMAZON Marks"). The Registrant, under the Complainant's "Associates Program", collected fees for sales to third parties who were referred to websites owned by the Complainant through websites operated by the Registrant. The Registrant registered AMZON.CA, AMAMZON.CA, AMAZZON.CA, AMAZN.CA, AMAZONA.CA. and AMAZONS.CA. Customers who incorrectly typed in the domain name for the Complainant's website would get one of the websites operated by the Registrant with

a URL consisting of one of the disputed domain names. The customer would then be directed to the Complainant's website and the Registrant would claim a referral fee. The Complainant's referral program prohibited participation by any websites that included letter additions to "amazon" or misspelling of the AMAZON Marks. When this use was discovered by the Complainant, it refused to pay any further referral fees and filed a complaint against the Registrant in accordance with CIRA's Domain Name Dispute Resolution Policy. The Registrant did not respond to the complaint. The Panel found in favour of the Complainant directing that the registrations of the disputed domain names be transferred to the nominee of the Complainant. First, the disputed domain names are confusingly similar to the AMAZON Marks because the average internet user with an "imperfect recollection" entering a domain name including one of the AMAZON Marks would likely be confused as a "matter of first impression" with the disputed domain names. Second, the Registrant registered the disputed domain names in bad faith for the purpose of disrupting the Complainant's business. In the Panel's view, although the Registrant was not competing with the Complainant by attempting to sell goods and services similar to those offered by the Complainant, the Registrant was "exploiting the Internet Traffic that was intended for the domain name corresponding to the correct spelling of the applicable AMAZON Mark." Third, applying the criteria under Paragraph 3.6, the Registrant had no legitimate interest in the disputed domain names.

Privacy

IN CLUSTERCRAFT JEWELLERY MANUFACTURING CO. Ltd. v. Wygee Holdings Ltd. the plaintiff/appellant attempted to rely on the *Personal Information Protection and Electronic Documents Act (PIPEDA)* in refusing to disclose information during a discovery. The information related to names and addresses of employees, the length of service of employees and the names, addresses and telephone numbers of former employees. The Ontario Court rejected this argument on the basis that *PIPEDA* expressly provides an exception, under s.7(3)(c), that personal information may be disclosed without the knowledge or consent of the individual if the disclosure is required to comply with an order made by a court

with jurisdiction to compel the production of information.

THE PRIVACY COMMISSIONER OF CANADA had released the [Submission to the Information and Privacy Commissioner of British Columbia](#) about the implications of the United States *Patriot Act*. The *Act* allows access to personal information about Canadians that is held in the United States. Under the *Act*, a company subject to a court order is compelled to disclose records, documents, papers and other items to the Federal Bureau of Investigation (FBI) for an investigation to protect against terrorism, which could include any personal information about Canadians that it holds. Companies are prohibited from disclosing that the personal information has been sought. The Privacy Commissioner calls for further examination of the transfer of personal information about Canadians across borders “to collectively seek a balance” that protects personal information, “the requirements of national security, the need for public safety and the conditions of an open and efficient economy.” In the meantime, the Commissioner recommends practical measures for Canadians and companies to better manage the cross-border flow of personal information. Commissioner Stoddart also recommends enhanced inter-governmental cooperation in privacy protection, “multi-stakeholder” dialogue on privacy issues of national significance and finally, that the federal government review both *PIPEDA* and the *Privacy Act* to ensure that “the highest standards of privacy protection relating to cross-border flow of personal information are met.”

THE BRITISH COLUMBIA INFORMATION and Privacy Commissioner announced the release of his Advisory Report on the privacy implications of the United States *Patriot Act* has been extended to mid-September.

THE BRITISH COLUMBIA COMMISSIONER has also extended the deadline for input into the [Draft Employment Privacy Guidelines](#) to November 1, 2004. The B.C. *Personal Information Protection Act* regulates the collection, use and disclosure of employee personal information by private sector employees. The draft includes guidelines covering electronic surveillance of employees essentially

drawing on employment law principles about workplace privacy.

Trademarks

In *Illico Communication v. Videotron Ltee*, a Quebec company specializing in legal research sued Videotron, a major cable company, over the use of certain trademarks and domain names involving the mark “Illico”. The plaintiff company had a registered TM for ILLICO for legal research services, and had also acquired the rights to the service mark “ILLICO COMMUNICATION” for various promotional services. The company also operated a website at www.illico.qc.ca. The defendant company launched a digital cable service using the name ILLICO, and had sought to register the marks ILLICO, ILLICO.CA and ILLICO.COM. The plaintiff opposed the registration of the marks, and, in a separate suit, sought an injunction to stop the use of what it alleged to be infringing marks.

Richer J. ruled that there was no infringement of s. 19 of the *Trade-marks Act* given that the services for which the plaintiff’s mark were registered were significantly different from the services offered by the defendant. She also rejected an argument based on confusing use of the marks. She noted that the fact that the plaintiff used computers in the normal course of its business and to conduct online legal research does not transform the nature of its services into “computer and e-commerce” services. Further, she rejected the argument that the plaintiff’s company performed broadcasting services by virtue of the fact that its president participated in certain television and radio broadcasts on legal information. Again, she found that the plaintiff was confounding the medium used with the services actually provided. She also found no basis for confusion with respect to any of the other criteria set out in s. 6(5) of the *Act*.

This newsletter is intended to keep members of IT.Can informed about Canadian legal developments as well as about international developments that may have an impact on Canada. It will also be a vehicle for the Executive and Board of Directors of the Association to keep you informed of Association news such as upcoming conferences.

If you have comments or suggestions about this newsletter, please contact Professors Anne Uteck and Teresa Scassa at it.law@dal.ca.

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Le présent bulletin se veut un outil d'information à l'intention des membres d'IT.Can qui souhaitent être renseignés sur les développements du droit canadien et du droit international qui pourraient avoir une incidence sur le Canada. Le comité exécutif et le conseil d'administration de l'Association s'en serviront également pour vous tenir au courant des nouvelles concernant l'Association, telles que les conférences à venir.

Pour tous commentaires ou toutes suggestions concernant le présent bulletin, veuillez communiquer avec les professeurs Anne Uteck et Teresa Scassa à l'adresse suivante : it.law@dal.ca

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