



# Nelligan O'Brien Payne

Lawyers/Patent and Trade-Mark Agents  
Avocats/Agents de brevets et de marques de commerce

## Business Focus

[LEGAL ISSUES OF INTEREST TO THE NOT-FOR-PROFIT AND BUSINESS COMMUNITY]

Volume 2, No. 2

Summer 2009

Pages 17 - 20

The Nelligan O'Brien Payne Business Law Group is pleased to present you with the Summer of 2009 edition of its newsletter, Business Focus. This edition deals with topics touching on intellectual property, corporate share structuring and the non-profit sector. We hope you find the following articles informative. If you have any questions or require assistance with these or any other legal matter, please do not hesitate to contact our office.

June Rudderham, Editor

### The Importance of Intellectual Property in Our Daily Lives

The majority of the population is likely unaware of the significance of intellectual property and the degree to which it impacts our lives every day. For instance, this morning I put on a shirt that I bought at the Gap. I then drove my Toyota Corolla to work while listening to various songs on the radio. On my way to the office, I stopped at Tim Hortons for a coffee. Once at the office, I sat at my desk and began writing this article with the help of a Hewlett Packard computer and a Microsoft Word program. This evening, I will probably end up watching the news or one of my favorite programs on my RCA television.

Each of the products and brand names mentioned in the above scenario has been protected by a patent, copyright or trade-mark. The unauthorized imitation, reproduction, use or sale of these things could result in serious consequences for the offender. Knowledge about intellectual property rights is therefore important for everyone.

### What is meant by Intellectual Property?

Intellectual property is a right you have on your creations of the mind, such as a literary work, an invention or a brand name. Like other property, you have the right to own and protect the creations of your mind. If you have an intellectual property right in any of your ideas, others will need to obtain your permission before they can use them. The most common types of intellectual property are copyrights, trade-marks, patents, industrial designs and trade secrets. A brief summary of each has been provided below.

### Copyrights

Copyrights provide protection for literary or artistic works and this includes computer programs. The owner of the copyright has the exclusive right to control the publication, distribution and adaptation of the creative work for a certain period of time. Registration is, on its face, evidence of your ownership. In a dispute the registered owner does not have to prove ownership. The onus of proving ownership lies with the challenger.

### Trade-marks

A trade-mark can be any combination of words, phrases, symbols, designs, logos or images used by individuals or businesses to distinguish their product from those of others. For example, you can identify the franchise of McDonald's restaurants by the well known "golden arches".

It is not essential to register your mark in order to acquire rights in a trade-mark so as to preclude others from using the same or a confusingly similar mark. However, registration does confer certain benefits

beyond those available at common law while recognizing those pre-existing common law rights.

Once registered, trade-marks are protected legally and the owners can initiate legal action against those who use their trade-marks without permission. Registering a trade-mark in Canada gives you the exclusive right to use the mark across Canada for 15 years, renewable every 15 years thereafter.

### Patents

Patents are applicable to new inventions or any new and useful improvement of an existing invention, including machines, processes or compositions of matter. Individuals or businesses with a patent for an invention have the exclusive right to control the manufacture, use, marketing, sale or distribution of the patented invention. The time limit of a patent is usually 20 years from the date the application is filed for the patent.

### Industrial Designs

These rights protect the look and appearance of products. It can refer to the creation of a shape, pattern or a combination of all these things. Some classic and frequently cited examples of protected industrial designs are the Coke Bottle and the VW Beetle. An industrial design right confers the exclusive right for individuals or businesses to make or sell any objects in which the design is applicable for a period of 10 years.

### Trade Secrets

Trade secrets are the designs, practice, know-how, formulas, processes, recipes, patterns or ideas which are used by businesses to gain economic advantage over their competitors. One of the world's most famous trade secrets is contained on a single piece of paper where Col. H. Sanders, the founder of KFC, wrote his fried chicken recipe nearly 70 years ago - the one with the 11 herbs and spices. In September of 2008, the document containing this secret recipe was allegedly moved to a secure location while the security systems and procedures at corporate headquarters were being revamped. It was reported that the secret recipe was locked in a briefcase marked "top secret" and handcuffed to a security expert. The document then went for a ride in an armoured car accompanied by bodyguards and off-duty police officers. It was since returned quietly back to corporate headquarters. Owners of trade secrets do not possess any right over someone who gains knowledge of that secret independently. Businesses must therefore protect and guard their trade secrets. Employers are strongly

encouraged to protect their trade secrets through contracts with their employees and contractors.

Since intellectual property rights provide their owners with unique rights of commercial leverage in the marketplace, it is crucial to use them smartly and protect them. This protection can be the key to the profitability or survival of a business. To avoid the unpleasant outcomes of legal disputes and poor public relations, it is equally as important to recognize and respect the intellectual property rights of others and to avoid infringing on them.

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## PIPEDA & Non-Profit/Charitable Organizations

The *Personal Information Protection and Electronic Documents Act* ("PIPEDA") applies to all organizations that use, collect or disclose personal information in the course of commercial activities. Although it is a federal enactment, it applies in those provinces that lack substantially similar privacy legislation.

PIPEDA applies only to private sector organizations that use, collect and disclose personal information in the course of commercial activities. "Commercial activities" is defined in PIPEDA to include "the selling, bartering or leasing of donor, membership or other fundraising lists." Due to the use of the word "commercial", one of the most often asked questions is whether PIPEDA applies to non-profit and charitable organizations. The Privacy Commissioner has stated, and the courts have agreed, the use of the word "commercial" does not automatically exempt non-profit and charitable organizations from the application of PIPEDA.

Unfortunately, neither the Privacy Commissioner nor the courts have fleshed out an exhaustive list nor provided a definitive test to determine what actually constitutes a commercial activity. The Privacy Commissioner has stated the following will not be considered commercial activity:

- the collection of membership fees, organizing club activities;
- compiling a list of members' names and addresses; and
- mailing out newsletters.

What is certain is that PIPEDA will apply if a non-profit or charitable organization sells, leases or barter membership, donor or fundraising lists.

Faced with such uncertainties, it is most prudent for a non-profit or charitable organization to comply with PIPEDA. Not only is this good business practice but it is also sound risk management. Failure to comply with PIPEDA may result in the organization having to compensate either an individual or organization as a consequence of such non-compliance. Furthermore, a complaint investigated by the Privacy Commissioner may become public.

The obligations PIPEDA imposes on an organization can be found in the Model Code for the Protection of Information (“Model Code”), which is Schedule I to PIPEDA. The three most important obligations that the Model Code imposes are:

- the requirement that an organization state the purpose for which the personal information is being used, collected or disclosed;
- obtaining the individual’s consent for such use, collection or disclosure; and
- to not use, collect or disclose personal information for purposes other than which the individual consented.

Other obligations under the Model Code include the appointing of a privacy officer; ensuring the accuracy of records; allowing individuals to access their records; and retention policies.

The obligations and recommendations are onerous and important. A good place to start would be to appoint a privacy officer whose duties should include:

- reviewing and familiarizing him/herself with PIPEDA and the Model Code;
- review personal information already held by the organization for accuracy and consent;
- ensure that collection, use or disclosure of information is limited to the stated purpose;
- ensure consent is being obtained for any personal information that is used, collected or disclosed;
- create policies for the retention of personal information and safeguards against their prohibited use, collection or disclosure;
- provide for a manner in which an individual can access his/her information;
- create policies to deal with complaints be it in house or those lodged with the Privacy Commissioner ; and

- train staff in policies and privacy obligations imposed by PIPEDA.

At first, this task might seem daunting but once the proper policies and procedures are in place, compliance becomes a routine matter. By taking these initial first steps and establishing procedures and policies, your organization not only complies with PIPEDA but also engages in the good business practice of keeping customers and members satisfied in knowing that their personal information is not being used, collected or disclosed for improper purposes.

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## Your Corporate Share Structure – Setting your Course for Success

For those who are about to incorporate and have yet to do so, it is important you give appropriate consideration to establishing a proper share structure. This will likely save time, money and administrative difficulties as your business grows. While you are only required at law to have one class of shares (common), it is best to provide additional classes of shares so that you will have the needed flexibility in the future to attract new investors; to afford an opportunity of income splitting between family members; and possibly to make use of a family trust. Ultimately, if truly successful, you will be in a position to take advantage of significant tax savings if the appropriate classes of shares have been in existence and have been held by the shareholders for a sufficient period of time (2 years).

Putting in place the correct share structure provides a number of advantages:

1. **Income Splitting** – This can be an effective tax saving device if you and your spouse hold different classes of shares. This affords you an opportunity to issue dividends and/or bonuses in a tax efficient manner.
2. **Key Employees** – Issuing shares to key employees can promote and maintain loyalty to ensure ongoing involvement of top level employees. The shares to be offered to key employees can either be voting or non-voting common shares or voting or non-voting special shares so long as such shares are part of the share structure.

3. Family Trusts – The use of family trusts and the issuing of the appropriate shares to beneficiaries of the family trust can be an effective tax and succession planning device.
4. Succession Planning – With the appropriate share structure in place it is possible to establish a cost effective and tax effective succession regime.
5. Raising Investment Capital – While it is common that an investor will have certain requirements concerning the share structure, it is possible to envisage many if not all such requirement in advance and this may facilitate a successful due diligence process.
6. Administrative and Legal Fees – Establishing an appropriate share structure at the outset can avoid the time and expense of preparing needed Articles of Amendment in the future.

For an existing corporation which needs to change its share structure, the process is fairly straight forward. Under both the Federal and Provincial Business Corporations Act, what is required is the filing of Articles of Amendment. This document sets out the existing share structure and stipulates the changes to be made to the share structure (i.e., the various classes of shares that are to be added).

In addition to filing costs you will likely incur legal fees for the preparation of the Articles of Amendment and all of the necessary corporate resolutions to authorize the corporation to file the Articles of Amendment so as to amend the share structure.

Keep in mind that it is important to review your share structure on an ongoing basis to ensure you are in a position to take advantage of various possible tax savings and to afford you flexibility from a corporate perspective.

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Business Focus is **not intended to provide legal advice or opinion** as neither can be given without reference to specific events and situations.

Questions and comments concerning materials in this newsletter are welcomed.

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Copies of this newsletter are also posted on our Web site at [www.nelligan.ca](http://www.nelligan.ca).

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- Estate Planning and Administration
- Family Law
- Financial Institutions
- Insurance Defence
- Intellectual Property
- Labour Law
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