

## INJUNCTIONS - A POWERFUL WEAPON

A new client arrives in your office and has just purchased a business, Dalton's Tacks Store. She agreed with the previous owners of Dalton's Tacks Store that the previous owners would not use the name Dalton's Tacks Store at any time in the future and would not sell any Tacks in a certain geographical for a certain period of time. The previous owners have just set up a business in a nearby neighbourhood and through an internet campaign that sells inferior, cheaper Tacks and has called the business "Dalton's Tacks for Men and Women". Your client wants you to put a stop to this conduct immediately while she is trying to reestablish Dalton's Tacks Store under her ownership, otherwise she believes that her business and business reputation will be damaged beyond repair.

There are endless variations on the same theme: your client needs something to be done or to stop being done or else the client will suffer an injury for which damages just will not properly compensate.

Injunctions *are* extraordinary interlocutory relief. Litigators understand that judges sitting in motions Court are not wont to grant this kind of relief without the case having been tried on its merits. On the other hand, just bringing an action which may be tried two or likely more years down the road simply will not meet the client's needs in some situations.

Even if you do not typically do injunctions work, it is an important tool that every litigator ought to have a practical understanding of to advise clients when they should move for an injunction. Also, most clients who are facing unlawful conduct by another individual or business want the conduct to stop immediately and are displeased to be told that resolution through a trial can be two to four or more years away. So your working knowledge of injunctions is an important tool in being able to perform the often more-difficult task of persuading a client that under the circumstances the Court is not likely to grant an injunction before the case is tried.

### **The Court's authority:**

Section 101 of the *Court of Justice Act*, R.S.O. 1990, c. C.43, as amended, provides the Court's authority for granting injunctions. Section 101 provides that an interlocutory

injunction or mandatory order may be granted where it appears to a judge of the Court to be just or convenient to do so, on such terms that are considered just.<sup>1</sup>

Rules 40.01 to 40.04 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended, then set out further detail on the procedure.

**Rule 40.01** provides that an injunction can be obtained on a motion to a judge in by a party to a proceeding or intended proceeding.

Except in urgent cases, the Statement of Claim should be issued before the injunction is sought. When an injunction is granted before proceedings are commenced, they will ordinarily be interim, to dissolve on a certain date or upon further order.<sup>2</sup> Commencing the proceedings if at possible will avoid having to face this argument in addition to the other hurdles that must be cleared to secure injunctive relief.

**Rule 40.02** provides that the maximum duration for an interlocutory injunction or mandatory order obtained without notice is 10 days and provides the rules for extending a without-notice order.

**Rule 40.03** requires the party seeking the injunction to undertake to abide by any order concerning damages caused by the injunction for which the court determines the responding party should be compensated.

The Affidavit in support of the motion for an injunction should include a paragraph giving the moving party's undertaking to this effect, tracking the wording of this rule.

**Rule 40.04** provides that each of the moving and responding party must deliver a factum. The moving party must serve its factum **four** days before the hearing. The responding party must serve its factum **two** days before the hearing. Facta must be filed **two** days before the hearing.<sup>3</sup>

This legislative framework is the basis for all interlocutory injunctions and mandatory orders, be they *Mareva* injunctions (freezing assets where there is a genuine risk of disappearance of assets), *Anton Piller* orders (a civil search warrant obtained on an ex

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<sup>1</sup> S. 102 of the *Court of Justice Act* sets out specific rules for granting injunctions in labour disputes that are beyond the scope of this roundtable discussion.

<sup>2</sup> Note the distinction between interim (which is granted for a certain time period, to dissolve on a certain date) and interlocutory (which is granted pending the outcome of the proceeding).

<sup>3</sup>Rule 41.02 sets out particular rules for the appointment of a receiver which is also done pursuant to s. 101 of the *Courts of Justice Act*. These rules are beyond the scope of this roundtable discussion.

parte basis), *Quia timet* injunctions (injunctive relief sought in apprehension of future harm, before the harmful act is actually committed) or otherwise.<sup>4</sup>

Of course, this legislative framework is too broad to provide real guidance on when the court will exercise its discretion to grant an injunction. The test for granting an interlocutory injunction was set out by the Supreme Court of Canada in the case of *RJR-MacDonald Inc. v. Canada (Attorney General)*.<sup>5</sup> The test has three parts:

**First, a preliminary assessment must be made of the merits of the case to ensure that there is a serious question to be tried. Secondly, it must be determined whether the applicant would suffer irreparable harm if the application were refused. Finally, an assessment must be made as to which of the parties would suffer greater harm from the granting or refusal of the remedy pending a decision on the merits.**<sup>6</sup>

Discussion on the application of this test to various forms of injunctions and fact situations is the subject of various texts including Sharpe's *Injunctions and Specific Performance*, Looseleaf ed. (Aurora: Canada Law Book, 2008). Sharpe is oft-cited in reported decisions.

Westlaw reports that since RJR was released in 1994, 2,415 reported cases have considered RJR. Since as recently as June of 2009 there have been sixteen reported cases in Canada with six by the Ontario Superior Court of Justice alone. A factor that is the genesis of so many reported decisions on injunctive relief and that make injunctions such a powerful tool is that the application of the general test set out in RJR is very fact specific, giving the Court broad discretion to do what seems right in any particular circumstance. This aspect of the law of injunctions gives the litigator an opportunity to make the injunction work for his or her client with a set of materials that are well-crafted to fit within the RJR framework. This aspect of the law of injunctions is equally true when responding to a motion for an injunction.

### **The first element of the test: a serious issue to be tried:**

The Ontario Superior court of Justice recently described the first RJR test<sup>7</sup> as follows:

*RJR-Macdonald* instructs that the threshold for a "serious question to be tried" is a low one and that a prolonged examination of the merits is generally neither necessary nor desirable. If satisfied that the application is neither vexatious nor frivolous, the motions judge should proceed to the second and third tests even if of the opinion that the plaintiff is unlikely to succeed at trial.

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<sup>4</sup> A discussion of considerations particular to these specific types of injunctions is beyond the scope of this roundtable discussion.

<sup>5</sup> *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311

<sup>6</sup> *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311, per Sopinka and Cory JJ. at para 43.

<sup>7</sup> *Rogers Communications Inc. v. Shaw Communications Inc.*, 2009 CarswellOnt 5489, by Newbould, J.

However, there are exceptions that place a higher burden on the moving party. Defamatory statements provide an example.

Defamatory statements are a circumstance about which clients can be particularly concerned and which can, of their nature, be likely to cause irreparable harm. However, because the opposing interest is free speech, the Court hearing the motion for an injunction must find that it is virtually inevitable that the statements in question will be found by the trier of fact to be defamatory before this first test is satisfied.<sup>8</sup>

The litigator must look beyond RJR to determine whether the nature of the cause of action in question must meet a higher standard than just a serious issue to be tried.<sup>9</sup> In any case the litigator should put his or her client's best evidence forward regarding the strength of his or her case. To do so not only will help the moving party to clear this first hurdle, but also will likely have persuasive effect when the presiding judge is hearing the evidence regarding the second and third tests.

### **The second element of the test: irreparable harm:**

Some points to remember with respect to this test<sup>10</sup>:

- 1) The test is one of the quality of the harm, not the quantity. The harm must be such that it cannot be compensated by damages or damages could not be collected;
- 2) The onus is on the moving party to present evidence that clearly identifies for the Court these distinguishing characters of the harm;
- 3) The nature of the harm must be clear, not speculative;
- 4) the risk of harm need only be a real risk; the risk doesn't have to be proved on a balance of probabilities;
- 5) The Ontario Superior Court of Justice recently reiterated that the term "irreparable harm" doesn't have a definition of universal application and takes shape with the circumstances of each case. So all of the above principles apply, but the facts to which they apply are not closed. This aspect of the test seems particularly relevant in the still new world of litigation about the use and abuse of the internet; and
- 6) And the injunction must be necessary to stop the harm.

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<sup>8</sup> *McLeod v. Sinclair*, 2008 CarswellOnt 7842 (Ont. S.C.J.) by Lederer, J.

<sup>9</sup> Another example of the moving party having to prove something more than a serious issue to be tried is when seeking an injunction to stop the breach of a restrictive covenant.

<sup>10</sup> *Rogers Communications Inc. v. Shaw Communications Inc.*, 2009 CarswellOnt 5489, by Newbould, J.

**The third element of the test: balance of convenience:**

The third test requires an analysis of which of the two parties will suffer the greater harm from the granting or refusal of an interlocutory injunction, pending a decision on the merits.

This test is wide open to the well-crafted affidavit, as the Court has not detailed a list of factors to be considered in this analysis because they are so numerous and will vary in each individual case.<sup>11</sup>

The moving party having sufficient funds to fulfill its undertaking as to damages caused to the responding party by the injunction will move the balance of convenience towards the moving party's favour.

However, a more detailed analysis of the evidence regarding potential harm to the responding party will be necessary if the moving party is impecunious or if the potential damage to the responding party is also a harm that would not readily be compensated by damages.

To the extent that the moving party has knowledge about this issue with respect to the responding party, such evidence should also be addressed in the moving party's supporting affidavit.

**Something short of an injunction:**

Even if the Court is not persuaded to grant the injunction, it may nevertheless enforce terms on the responding party that it decides are just and which may well provide some relief to the moving party.

For example, where a plaintiff failed to establish the necessity of an interim injunction under a restrictive covenant, or to restrain an alleged breach of fiduciary duty, the court ordered the defendant to keep detailed listings of sales and customers pending the final resolution of the matter.<sup>12</sup>

Another example involves an individual who put commentary on his website that a group of art galleries was reproducing forgeries or counterfeits of a particular artist for commercial gain. The impugned museum sought an injunction against the website. The responding party was not required to remove the statements, because he had

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<sup>11</sup> *R.J.R. – MacDonald, Inc. v. Canada*, [1994] 1 S.C.R. 311 at paras. 67 and 68 of Westlaw version.

<sup>12</sup> *Gerrard v. Century 21 Armour Real Estate Inc.* (1991), 4 O.R. (3d) 191 (Gen. Div.) at p. 203, leave to appeal to Ont. Div. Ct. refused 4 O.R. (3d) 191n, at para. 51 of Westlaw version.

successfully defended on the first test by providing enough evidence to show that he could have a legitimate defence of truth. However, the Court nevertheless imposed very specific requirements that the website, within a few hours of the injunction hearing, post signs of a specific size on the webpage that made clear that the comments were the opinion of the writer and that they were the subject of defamation litigation. In our view, this result was still a significant win for the moving party.<sup>13</sup>

### **The Statement of Claim**

The originating process must claim the injunction in the relief sought.

(e.g., The Plaintiff claims... an interlocutory and a permanent injunction restraining the Defendant from locking the Plaintiff out of the premises at 555 Upper Jim Street, Hamilton)

(e.g., The Plaintiff claims... a permanent and interlocutory injunction restraining the defendants from operating “Dalton’s Tacks Store”, “Dalton’s Tacks for Men and Women” or any business similar to the Plaintiff’s business within a radius of 150 miles from the City Hall of the City of Hamilton before January 12, 2011.)

In addition to pleading the facts that support the underlying cause of action, the originating process should also include the facts that support the claim for an injunction, crafted in a manner that fits the R.R. principles.:

(e.g., The operation of the defendants’ business in a location within the area proscribed in the non-competition agreement, and during the two-year time period contemplated therein, is a breach of the non-competition agreement. This breach has caused, and continues to cause irreparable harm to the plaintiff’s efforts to continue the business purchased from the defendants. The plaintiff purchased both the goodwill of the business and the lists of customers. In setting up a competing business at the same time, and in the same location, the defendants are depriving the plaintiff of

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<sup>13</sup> *McLeod v. Sinclair*, 2008 CarswellOnt 7842, paras. 36 – 41.

the value of the goodwill and customer lists, and destroying the viability of the purchased business.

The plaintiff purchased the right to use the name “Dalton’s Tacks Store” in connection with the business, thus the operation of a competing business by the defendants is causing confusion in the marketplace and damaging the plaintiff’s business. Furthermore, the defendants have continued to use the plaintiff’s address as their mailing address when dealing with suppliers, adding further to the confusion.

The plaintiff therefore requests that the defendants immediately be restrained from operating “Dalton’s Tacks for Men and Women” or any other business in violation of the terms of the non-competition agreement, and that they account to the plaintiff for the profits made to date in “Dalton’s Tacks for Men and Women”.

**The Affidavit in support:**

**The factum:**

What follows is the issues portion of a winning factum:

**SUB-ISSUE A – MERITS OF THE PLAINTIFF’S CASE**

1. It is submitted that the Plaintiff has a strong *prima facie* case. While it is arguable that the trade name “Dalton’s Tacks for Men and Women” utilized on its own in support of a business unrelated to the Tacks industry may not be confusingly similar to that of “Dalton’s Tacks Store”, its use to direct future members and franchisees to a website which clearly does use the

“Dalton’s Tacks Store” trademark and virtually mimics Dalton’s own website, has and will continue to create actual confusion in the marketplace. The Defendants’ website continues to appear first when the phrase “Dalton’s Tacks Store” is searched through the Google search engine.

2. The use of a website as a method of communication between franchisors and potential franchisees is of critical importance in the development of a franchise business. The plaintiff estimates that over 50% of its franchise sale leads arrive through the internet. Moreover, other potential franchisees that learn of the business through newspaper advertisements and other publications often resort first to an internet search rather than contact the Plaintiff directly at the address published in its advertisements. It is essential to the Plaintiff’s business that all franchise inquiries be responded to quickly and positively. It is extremely difficult to resurrect confidence in a potential franchisee whose first contact is met with indifference or worse. The Defendants’ direct interference with the Plaintiff’s communication with potential franchisees at a time when the Plaintiff is redeveloping strength in the “Dalton’s Tacks Store” brand has significantly frustrated the Plaintiff’s development efforts.
3. It is apparent from the timing of the registration of these domain names and the ongoing utilization of the trade name “tackfit.ca” to support a website passing off the Defendants’ business as that of the Dalton’s Tacks Store, that all the domain names were in fact registered in bad faith, for the purpose of disrupting the Plaintiff’s business. The Defendants’ use of the trade name “Dalton’s Tacks Store” and Dalton’s trademark “Dalton’s Tacks

Store” clearly has no legitimate purpose; it appears to be the act of vengeful sabotage on the part of a disgruntled minority shareholder.

**SUB-ISSUE B – IRREPARABLE HARM TO THE PLAINTIFF**

4. The Defendants are eroding the Plaintiff’s efforts to develop its business at a critical time in the business development cycle.
5. The damage caused by the Defendants at this stage in the development of the Plaintiff’s business may well prove fatal to the continued operation of the business. Further, given the Defendants’ history of failed business ventures, there is no certainty that an award of damages at trial will be collectable by the Plaintiff.
6. It is submitted that an award of damages, even if collected, would not permit the Plaintiff to recreate this unique opportunity.
7. The conduct of the Defendants is causing and will continue to cause irreparable harm. The Plaintiff is unable to determine exactly how many potential franchise leads have been lost to date, but based on inquiries received before the launching of the Defendants’ website and since, the Plaintiff estimates the loss of leads to be in the hundreds. The Plaintiff therefore submits that the balance of convenience overwhelmingly favours granting this injunction.

**SUB-ISSUE C – BALANCING OF HARM**

8. The court is required to weigh the relative inconvenience to the parties of the granting or refusal of the injunction. In essence, the court must decide which party can be better compensated by an award of damages at trial.

9. It is submitted that the court should consider the relative impact of the injunction on the Plaintiff and the Defendants. The Plaintiff's business is in a growth pattern where the Defendants' activities can cause great harm. On the other hand, the Defendants have abandoned their interest in this franchise business.
  
10. It is further submitted that in determining which party can be better compensated by damages at the time of trial, the court should also consider the likelihood of either party being able to collect those damages. The Plaintiff submits that such consideration would favour the granting of the injunction requested.

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