

TRADEMARK (NOT) ASSIGNED

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The recent Ontario Superior Court decision in [Bridging Income Fund\[1\]](#) provides a good reminder that an executed assignment document is not necessarily determinative of whether a trademark has truly been transferred from one party to another.

In the *Bridging Income Fund* decision, Person A served as the directing mind of two companies: Company 1 and Company 2. Company 1 had been using a word mark and a design mark in association with its business for 20 or so years. About eight months leading up to Company 1 and a Financer entering into a financing term sheet, Person A caused Company 1 to assign the word mark to Company 2 for nominal value. About a month prior to Company 1 and the Financer entering into the financing term sheet, Person A caused Company 1 to assign the design mark to Company 2 for nominal value. Soon thereafter, Person A caused Company 2 to grant a non-transferable and perpetual licence to Company 1 to use the word mark and the design mark. Company 1 later entered into the financing term sheet with the Financer, through which the Financer took a general security interest in the property of Company 1. Company 1, however, did not disclose the existence of the word mark and the design mark to the Financer. Company 1 later became insolvent; around the same time, the Financer learned of the existence of the word mark and the design mark. A receiver was appointed over Company 1's property.

The issue for the Court to decide was whether the word mark and the design mark formed a part of Company 1's property and were subject to the Financer's security interest in Company 1's property, notwithstanding the alleged trademark assignments from Company 1 to Company 2. Ultimately, the Court found that: (i) Company 1 owned the word mark and the design mark, notwithstanding the alleged assignments of the same from Company 1 to Company 2; and (ii) if Company 1 did not own the word mark and the design mark, then Company 1 fraudulently conveyed the word mark and the design mark to Company 2 under the *Fraudulent Conveyances Act*[\[2\]](#) in Ontario.

The Court pointed to a number of factors that led to its conclusion that Company 1 was the true owner of the word mark and the design mark. Such factors included, but were not limited to: (i) the non-arm's length nature of the transactions between Company 1 and Company 2, particularly since Person A was the directing mind of both Company 1 and Company 2 and signed on behalf of Company 1 and Company 2 for all relevant

transactions between the two parties; (ii) the lack of evidence that Company 1 ceased using the word mark for any period of time (including, the period of time between when Company 1 allegedly assigned the word mark to Company 2 and when Company 1 received a licence from Company 2 to use the word mark); (iii) the failure (though not a determinative factor) of Person A to update the official records at the Canadian Intellectual Property Office related to the ownership of the word mark and design mark, despite having opportunities to do so; (iv) Person A's lack of credibility; and (v) ambiguity in the language of the licence agreement between Company 1 and Company 2 with regard to who was licensing the word mark and the design mark to whom.

The Court noted that if it were wrong with respect to its assessment on trademark ownership, then the Court was prepared to find that Company 1 had fraudulently conveyed the word mark and the design mark to Company 2 contrary to the applicable provincial statute. Namely, the Court found that Person A caused Company 1 to assign the word mark and the design mark to Company 2 simply to shield such property from potential creditors (e.g. the Financer). The fact that such assignments were done prior to the Financer's involvement with Company 1 did not unwind the fact that the conveyances were intended to defeat a creditor's claim against Company 1. The Court found that the facts before it had the hallmarks of a fraudulent conveyance including: (i) continued use of the word mark by Company 1 as if it were its own, despite having already made an assignment of the same to another party; (ii) the secrecy of the transactions between Company 1 and Company 2; (iii) the lack of good consideration for the transfer of the word mark and the design mark from Company 1 to Company 2; and (iv) the close relationship between Company 1 and Company 2.

The Court ultimately declared that the word mark and the design mark belonged to Company 1, and that those trademarks were therefore subject to the Financer's security interest.

Takeaway Points:

The *Bridging Income Fund* decision illustrates a number of important points for businesses to keep in mind when transferring intellectual property (e.g. trademarks) from one party to another:

- an executed assignment document is not necessarily determinative of whether intellectual property has truly been transferred from one party to another;
- the consideration ought to be commensurate with the true value of the transferred intellectual property;
- it is important to act in accordance with the underlying purpose of an agreement;
- transactions between related parties ought to be properly documented so that the legitimacy of such transactions can be demonstrated;
- official records ought to be updated;
- provincial statutes, such as those related to fraudulent conveyancing, are applicable to intellectual property transfers.

Actions taken before and after an assignment of intellectual property all go towards assessing whether the purported assignment had truly occurred.

by Pablo Tseng

[1] *Bridging Income Fund LP v 3886727 Canada Inc*, 2020 ONSC 602.[ps2id id='1' target='']

[2] *Fraudulent Conveyances Act*, R.S.O. 1990, c. F.29.[ps2id id='2' target='']

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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