

Indexed as:
**Sommerville Design & Mfg. Inc. v. J. Philip Humfrey
International Inc.**

Between
Sommerville Design & Mfg. Inc., plaintiff, and
**J. Philip Humfrey International Inc. and Excalibur Machine &
Tool Inc., defendants**
And between
J. Philip Humfrey International Inc., plaintiff by
counterclaim, and
Sommerville Design & Mfg. Inc., Black & Decker (U.S.) Inc. and
Sommerville Manufacturing Inc.

[1999] O.J. No. 1492

Court File No. 70835/96

Ontario Superior Court of Justice

Lack J.

April 28, 1999.

(16 pp.)

*Trademarks, names and designs -- Trademarks -- Unfair competition -- Torts
-- Interference with economic relations -- Contracts -- Inducing or procuring
breach of contract -- Interference with business relations -- What constitutes
-- Fraud and misrepresentation -- Fraudulent conveyances and preferences -
- Conveyances and preferences impeachable by creditors or others.*

This was an action by Somerville Design & Mfg. against J. Philip Humfrey for ownership of a trade-mark. Somerville developed a saw that the defendant Humfrey agreed to market. In a 1983 agreement with Somerville, Humfrey and his company, International, were given the exclusive right to market the saws under the Excalibur name. Somerville was not to manufacture a similar product under that name for sale by others. In addition, it was agreed that the proprietary rights to the product, including the name, were to be the mutual property of the parties. On termination, a party forfeited its rights to the name. The five-year contract was renewable for a further 10 years. Under a 1991 agreement,

Sommerville transferred its interest in the mark to International. The agreement also recited their intention to continue to jointly own the mark. International then registered Excalibur as a trade-mark. Black and Decker contracted in 1996 with Somerville's new company, Somerville Manufacturing, to develop a saw which it marketed under its own label. Negotiations for the purchase by Somerville of the trade-mark from International broke down. When International closed, two of its sales representatives were hired to work for Somerville. Somerville brought an action against International and obtained summary judgment for the accounts owing. The order required International to maintain records of sales under the trade-mark. The remaining issue was whether Somerville was the sole owner of the trade-mark under the agreements. International counterclaimed, arguing that Somerville had breached the agreement by manufacturing products similar to those distributed under the Excalibur name for others, that Somerville unfairly competed by designing the Black and Decker products and advertising products under its own name, that Somerville used confidential information and that it breached a fiduciary duty. It also argued that Black and Decker induced the breach of contract by Somerville and was responsible for a loss of business reputation. Also at issue was whether a licence granted by International to another company to use the trade-mark after summary judgment was valid.

HELD: Action allowed and counterclaim dismissed. The 1983 agreement had been renewed. In addition to regulating the sale of saws, the 1983 agreement also regulated the use of the name Excalibur. The cornerstone of the relationship was the joint use of the mark with exclusive rights to it against any third party. The transfer of the trade-mark under the 1991 agreement did not change the nature of the contractual relationship. Nothing in the 1983 agreement precluded Somerville from designing or manufacturing a saw independently of International, so long as the name Excalibur was not used. Nor did the agreement preclude Somerville from marketing its own products under a name other than Excalibur. No documentary evidence was produced to establish confidential information was communicated to Somerville or his companies. The employees of International were not approached until after the business was terminated. No fiduciary relationship between the parties arose since Somerville had no unilateral ability to exercise a discretion or power over matters affecting International so as to place it at Somerville's mercy. No facts were presented in support of the claim against Black and Decker for loss of business reputation. There was also no evidence Black and Decker had knowledge of the nature of the contractual relationship between the parties so as to establish the tort of inducing a breach of contract. Nor had any breach of contract by Somerville been made out since it was not precluded under the 1983 agreement from designing or manufacturing a saw for Black and Decker. International's failure to pay and the closure of its business terminated the

agreement so that Sommerville was entitled to all the rights to the name or trade-mark. International was to transfer the mark to Sommerville immediately. The licence granted by International to use the trade-mark was set aside as a fraudulent conveyance designed to defraud or delay creditors under the judgment.

Counsel:

William F. Kelly, for the plaintiff, defendants by counterclaim.

William Sinclair, for the defendants, plaintiff by counterclaim.

Paul Starkman, for the defendant by counterclaim, Black & Decker (U.S.) Inc.

1 LACK J.:-- In 1982 Thomas Sommerville went to Philip Humfrey's showroom to buy tools. Philip Humfrey showed him a Hegnar scroll saw and asked him if he could build one. Thomas Sommerville said that he could build a better one. He returned in six or eight weeks with a prototype. While Thomas Sommerville worked on improving the saw, Philip Humfrey worked on marketing it under the name "Excalibur". On January 3, 1983, Sommerville Design & Mfg. Inc. ("Sommerville") began shipping saws to J. Philip Humfrey International Inc. ("International") with the name Excalibur on them. On January 26, 1983, the parties entered into an agreement that gave International the exclusive right to market the saws. The product line increased over time. The marketing evolved from retail sales to dealer sales. The trademark Excalibur was registered to International.

2 At a trade show in August 1993 Philip Humfrey demonstrated an Excalibur scroll saw for a representative from Black & Decker (U.S) Inc. Black & Decker ordered a few saws. At the end of 1994 Black & Decker contacted Thomas Sommerville. On October 24, 1995 Thomas Sommerville's new company Sommerville Manufacturing Inc. ("S.M.I.") entered into an agreement with Black & Decker to develop a scroll saw.

3 International did not pay Sommerville for product in a timely fashion. Sommerville tried to purchase the trademark from International but negotiations broke down. In October 1995, Sommerville raised its prices. At the beginning of 1996 it advertised some products, previously sold under the Excalibur name, for sale under its own name. On February 19, 1996 Philip Humfrey advised Thomas Sommerville that International had no money and it was closing. Two of International's sales agents went to work for Sommerville.

4 On August 5, 1996, S.M.I. made an agreement with Black & Decker to manufacture scroll saws under the DeWalt label. Shipments began May 1997. In the first year S.M.I. produced 33,000 scroll saws for Black & Decker.

5 On June 26, 1996 Sommerville was awarded summary judgment against International in this action for \$319,185.45 owed on accounts. The remaining issues were adjourned for trial. Sommerville claims that it is entitled to a declaration that it is the sole and rightful owner of the trademark Excalibur, because International owed it money and shut down. International alleges that Sommerville unfairly competed with it. It also alleges that, with the participation of S.M.I., it used confidential information and breached a fiduciary duty it owed to International. It claims against Sommerville and S.M.I. an accounting for and payment of profits as well as punitive, aggravated and exemplary damages. International alleges that Black & Decker induced Sommerville to breach its contract with International. It claims damages against Black & Decker for unfair competition, loss of business reputation, and punitive, aggravated and exemplary damages.

The Agreement

6 In the agreement of January 26, 1983 Sommerville granted to International the exclusive world wide right to market and sell two Excalibur scroll saws, the Ex-1 and the Ex-2, their replacements, improvements and betterments. Sommerville agreed not to manufacture a similar product under the name Excalibur for sale by others. International agreed not distribute a similar product under the name Excalibur manufactured by others. The parties agreed that proprietary rights to the product were their mutual property. The term was 5 years. International was given the right to renew for a further 10 years on the same terms and conditions.

Was the agreement renewed?

7 There is no evidence that International ever gave notice of renewal. Sommerville has consistently maintained that the January 26, 1983 agreement was renewed. International's position has vacillated. The first time it alleged that the agreement extended beyond 1988 was when it amended its pleadings to add Black & Decker as a defendant by counterclaim. Its pleadings are inconsistent on the issue of renewal. As against Sommerville, International does not allege a breach of the January 26, 1983 agreement, but does allege unfair competition, breach of confidentiality and breach of fiduciary duty arising out of their "business arrangement". However International alleges that Black & Decker induced Sommerville to breach the agreement of January 26, 1983. The evidence of

Philip Humfrey on this point was similarly baffling. He testified that after January 26, 1983 he and Thomas Sommerville discussed a new agreement and could not come to terms. He also testified that the agreement was renewed but modified. He also testified that the January 26, 1983 agreement was in existence in February 1996.

8 Renewal of a contract may be inferred from how parties conduct themselves. Thomas Sommerville testified that he saw no change in the relationship after 1988. On May 31, 1989 the parties entered into a confirmatory agreement as a preliminary step to registering the trademark. It confirmed that they had jointly marketed scroll saws and other products under the trade mark designation Excalibur since January 1983.

9 The parties were still trying to register the trademark in 1991. They had to defend their ownership against a third party. They received legal advice that their position would be strengthened if International alone pursued registration. As a result, Sommerville transferred its interest in the mark to International in an agreement dated March 26, 1991. The agreement recited their intention since 1983 to jointly own the mark and control the nature and quality of the goods sold under it. It expressed their wish to make one of them sole owner of the mark to enforce exclusive rights against third parties. It recited that both parties intended to continue their business relationship as before and intended to derive increased revenue as a result of successful enforcement of the mark. It provided that the August 14, 1982 agreement remained in force to the extent that it was not inconsistent with the March 26th agreement. At trial, it was acknowledged that the reference to an August 14, 1982 agreement was meant to be a reference to the January 26, 1983 agreement. It is very compelling evidence that the agreement of January 26, 1983 was a valid and subsisting agreement.

10 The conduct of the parties as evidenced by their continuing business relations satisfies me that the agreement of January 26, 1983 was renewed. Did the agreement only regulate the sale of scroll saws?

11 International has pleaded that the agreement of January 26, 1983 only dealt with scroll saws. Before 1988 a new saw, Exc. II, and a table saw fence were introduced. Both were manufactured by Sommerville under the name Excalibur and sold by International. By May 31, 1989 Sommerville had added an Excalibur stock pusher and an Excalibur auxiliary fence. By March 26, 1991 Sommerville had added to the Excalibur line an over arm blade cover. When Sommerville produced anything under the name Excalibur only International sold it. International sold no other products under the name Excalibur except those produced by Sommerville. The cornerstone of their relationship was joint use of the mark. The premise of the March 26, 1991 agreement was that their joint use of the mark since 1983 gave them exclusive rights to the mark against third parties. It follows that unilateral

use of the mark had been precluded since 1983. I conclude that in addition to regulating the sale of the Ex-1 and Ex-2 saws, their replacements, improvements and betterments, the agreement of January 26, 1983 also regulated the parties' use of the name Excalibur. To construe the agreement in any other fashion would be inconsistent with their expressed intentions and their actions.

Did the transfer of the trademark change the relationship between the parties?

12 International pleads that it is the sole owner of the trademark Excalibur. Philip Humfrey testified that International expended in excess of twenty thousand dollars to register the trademark and that was consideration for the transfer. Thomas Sommerville testified that the costs were the joint responsibility of the parties. He stated that they expected to receive a settlement from the dispute with the third party. International was supposed to pay Sommerville's share of the costs from the settlement. When Thomas Sommerville asked about the settlement after the trademark was registered, Philip Humfrey told him it had been "a wash". At trial, Philip Humfrey did not substantiate the expenses of the registration of the mark, nor provide any particulars of the settlement. Thomas Sommerville's explanation is more consistent with the intention expressed in the agreement of March 26, 1991. I find that there was no consideration for the transfer. The agreement of January 26, 1983 was to remain in force except to the extent that it was inconsistent with the 1991 agreement. The fact that one party had legal title to the trademark for enforcement purposes was not inconsistent with the 1983 agreement. I find that there was no change in the contractual relationship of the parties after either the agreement of March 26, 1991 or the registration of the trademark to International.

Events after 1991

13 Under the 1983 agreement International agreed to pay for product within 30 days. Sommerville did not enforce the term. By 1991 International regularly owed more than \$150,000.00 and took more than 45 days and sometimes more than 60 or 90 days to pay. Sommerville experienced cash flow problems. I am satisfied that at a meeting near the end of October 1991, Philip Humfrey and Thomas Sommerville agreed that in the future International would pay invoices within 45 days, and have an upper credit limit of \$150,000.00. Any amount ordered and shipped above that limit would be due immediately. Thomas Sommerville tried to keep International within terms. He called Philip Humfrey regularly for payment. Sommerville faxed International a statement every week showing the amount of receivables that were beyond 45 days and \$150,000.00. Philip Humfrey testified that he felt it was Sommerville's responsibility to keep track of the accounts and he did not concern himself with them.

14 After Black & Decker purchased two scroll saws from International, Philip Humfrey told Thomas Sommerville about the contact, but Humfrey did not follow up with Black & Decker. Lowell Lueking, director of products for Black & Decker, testified that Black & Decker had decided to produce a new line of power tools, including a scroll saw, under its DeWalt label. During 1994 Black & Decker conducted tests and market research and patent searches on scroll saws at cost of over \$200,000.00. It tested the Exc. II. It produced a shopping list of what it wanted in its scroll saw. It wanted the parallel link mechanism used in the Exc. II saw, subject to overcoming 8 problems. Between Christmas 1994 and New Year's Day 1995, Lowell Lueking contacted Thomas Sommerville, because of his knowledge of the mechanism. He knew to contact Sommerville because its name was on the label of the Exc. II. Thomas Sommerville met with Lowell Lueking and Mike O'Banion, director of engineering at Black & Decker, during the first week of January 1995. They showed him their test results and explained their mission. The meeting ended with Thomas Sommerville agreeing to put together a design proposal and a price. Thomas Sommerville testified that he started to work 12 to 14 hours a day on the design.

15 At the end of January 1995, Thomas Sommerville flew to Hampstead and presented a proposal to DeWalt that was similar to the Exc. II design. They began to formulate a concept and to discuss joint development of the saw. As design progressed the saw became quite different from the Exc. II saw except for the drive mechanism. At that time no decision had been made about who would manufacture the saw.

16 Sommerville experienced its first financial loss in 1993. Thomas Sommerville looked for more financing. He applied for a government grant. An assessment of Sommerville's business was required. The assessor recommended that Sommerville take control of marketing. During 1994 Thomas Sommerville began efforts to implement the recommendation by purchasing the trademark and marketing rights from International. In February 1995 the parties executed a letter of intent. A formal agreement of intent followed on March 31, 1995. Concurrently Sommerville's bank approved a \$150,000.00 demand loan to fund the purchase and advanced funds into an escrow account. The sum of \$75,000.00 came from the grant. Michael Evans, chief executive officer of Sommerville, testified that during negotiations Philip Humfrey told him that he did not need Sommerville and he could find a manufacturer any time he wanted. Philip Humfrey denied he made this statement.

17 On May 29, 1995 Sommerville's solicitor forwarded a purchase agreement to International's lawyer. Part of the financial consideration to International and to Philip Humfrey was a percentage of Excalibur sales over

5 years. In mid June, after Philip Humfrey learned that Sommerville was designing a scroll saw for Black & Decker, he asked Thomas Sommerville for a non-competition clause in the agreement. When Thomas Sommerville told him that the Black & Decker deal had nothing to do with International, Humfrey made no reference to the January 26, 1983 agreement, but simply walked out, furious. At the end of June, International's solicitor asked Sommerville's solicitor for a copy of the 1983 agreement. On July 6, 1995 International's lawyer sent a proposal to Sommerville's lawyer for 70 changes to the draft agreement, including a non-competition clause. It provided that Sommerville was "not to design, manufacture or distribute any product directly, indirectly or under any other brand name or trademark which product competes with product manufactured by Sommerville bearing the trade name Excalibur, unless the prior written consent of Humfrey is obtained." Sometime in July or August 1995, Philip Humfrey told Thomas Sommerville that he was no longer willing to sell the trademark. He offered to license it to Sommerville for 5 years provided a non-competition clause was part of the arrangement. The deal died.

18 Joe Brakhage, and Pat Magro, sales agents for International, testified that about August 1995 Philip Humfrey told them that he was going to have a company called Accu Plus manufacture a sliding table for him and he was going to market it under the name Excalibur. He told them that the name, which he owned, was everything and the product was nothing.

19 Sommerville experienced another loss for the year ended August 31, 1995. On October 12, 1995 Sommerville notified International of an across the board price increase. Philip Humfrey asked to see documents to substantiate the increase. Sommerville demonstrated that the increase was based on increases in the price of aluminium and in the price of insurance. The parties agreed that any material that Sommerville had in stock would not be subject to the increase, and they "split the price increase". International continued to order product and there were no further discussions about the increase.

20 On October 25, 1995, Thomas Sommerville's new company S.M.I. entered into an agreement with Black & Decker for the joint development of a new scroll saw.

21 Both Joe Brakhage and Pat Magro testified that about the end of 1995 Philip Humfrey told them that he intended to sink Sommerville with receivables. Philip Humfrey told Brakhage that International did not have funds to pay for product, and that he intended to open a new company and reproduce the rip fence and sliding table and sell them under the name Excalibur. Pat Magro testified that by early 1996 Philip Humfrey had taken the Excalibur sliding table to Accu Plus for reproduction. Philip Humfrey told

him there were no patents and no restrictions on copying it. He also mentioned plans to reproduce the blade cover.

22 About December 1995, Sommerville placed an ad in the February 1996 issue of Woodworking News to sell a rip fence. In the March to July 1996 issues it advertised a rip fence and sliding table. The products advertised were distinguishable from Excalibur products only by name and colour. The manuals were nearly identical to the Excalibur manuals. Thomas Sommerville testified that Sommerville sold only one product through the telephone number in the ads. He subsequently learned that it was Joe Brakhage's wife who had purchased the product, on Philip Humfrey's instructions.

23 Philip Humfrey testified that in December 1995, International was "maxed out" at its bank. Sommerville's records showed that on January 2, 1996 International owed it a total of \$392,944.39 and of that \$14,269.50 had been outstanding for over 45 days. Thomas Sommerville testified that during January he offered to discount International's older receivables by 10% upon payment in full of those over term. Philip Humfrey told him that International did not have the money.

24 Philip Humfrey testified that on January 15, 1996 Sommerville put International on terms of 2 for 1, that is, International was expected to pay for product on delivery and pay an equivalent amount on its outstanding account. Philip Humfrey testified that the result was that International did not receive any product after January 15, 1996. The evidence of Thomas Sommerville, which I prefer, was that no such terms were imposed on International. Sommerville continued to ship product to International to the end of their relationship. On February 1, 1996 he put International on C.O.D. payment terms until the receivables were brought into good standing.

25 By February 19, 1996 International owed \$319,185.45, and of that \$316,964.95 had then been outstanding for over 45 days. The last payment Sommerville received from International was on January 22, 1996. On February 19, 1996 Philip Humfrey told Thomas Sommerville that International had no money and was closing. At that time International's purchases from Sommerville accounted for 75% of all of Sommerville's sales.

26 Philip Humfrey testified that when he closed International it owed \$400,000.00 to the bank and \$25,000.00 to the Ontario Development Corporation. He had guaranteed these debts. It owed \$60,000.00 to others. Sommerville's records showed that International received about \$320,000.00 worth of product from it in the last 56 days of operation. Philip Humfrey offered no explanation about what happened to that product. He testified that when International closed down, it had few assets and little inventory. Pat Magro testified that Philip Humfrey moved between

\$40,000.00 and \$50,000.00 worth of Excalibur inventory to the Accu Plus warehouse after International closed. Philip Humfrey denied this. After International shut down, the Ontario Development Corporation was paid in full. The bank loan was reduced by \$100,000.00. Philip Humfrey spent a substantial amount of money getting a new company off the ground. When Philip Humfrey was asked where this money came from he testified that he sold Excalibur product. He said that the product he sold was purchased from other dealers at margins that enabled him to make a profit. I do not accept the explanation. I find that the money Philip Humfrey used after International closed down came from the sale of inventory the company had stockpiled from Sommerville.

27 Philip Humfrey testified that in November 1996 he incorporated E.M.T. On March 6, 1997, International entered into a licensing agreement, which allowed E.M.T. to use the trademark Excalibur. After November 1996 E.M.T. sold product under the name Excalibur that had been manufactured by companies other than Sommerville. It started selling a saw fence in November 1996, a sliding table in March 1997 and an over arm blade cover in June 1997.

28 Philip Humfrey testified that his employees Pat Magro and Joe Brakhage were not terminated but quit working for International to work for Sommerville. Pat Magro testified that International fired him. His record of employment prepared by Philip Humfrey dated February 22, 1996 verified this. He also testified that he received no severance pay and that International still owed him over \$20,000.00. He stated that after International closed he dropped in at Sommerville's plant to pick up some items. It was then that Thomas Sommerville told him that Sommerville would probably have to go out of business and needed to sell off its inventory. Magro saw an opportunity to make some money and offered to sell for Sommerville. He testified that he had never previously been approached to work for Sommerville.

29 Joe Brakhage testified that after International had terminated its relationship with Sommerville, Philip Humfrey told him that the rip fence, sliding table and blade cover that he was having copied by another manufacturer would be available soon. During the waiting period Joe Brakhage would be without pay. In my view this amounted to termination. Brakhage was worried about his future and disapproved of Philip Humfrey's actions. He called Pat Magro the weekend of February 29, 1996. About one week later he began selling for Sommerville. He testified that Thomas Sommerville did not initiate the contact.

30 The evidence satisfies me that after February 19, 1996, Sommerville's operation was in chaos. It lay off workers. It had difficulty supplying product

and keeping its payments current. It survived by selling off inventory at a cash discount. It managed to keep going.

31 On February 23, 1996 S.M.I. made a proposal to Black & Decker to manufacture the new DeWalt saw. On August 5, 1996 S.M.I. and Black & Decker entered into a manufacturing agreement. Sometime between February 23 and August 5, 1996 S.M.I. learned that it had the contract to manufacture scroll saws for Black & Decker.

Unfair Competition

32 It cannot be disputed that when International shut down it owed Sommerville \$319,185.45. However, International alleges that Sommerville put it out of business. It alleges that by advertising products for sale Sommerville unfairly competed with it. It also alleges that by designing and manufacturing a scroll saw for Black & Decker S.M.I., with the participation of Sommerville, unfairly competed.

33 The agreement of January 26, 1983 regulated manufacturing and distribution of the product. Section 10(vi) contained Sommerville's covenant "To not manufacture a similar product under the name Excalibur for sale by others unless agreed to in writing between the Manufacturer and Distributor." Section 13(v) contained International's corresponding covenant to "Not distribute a similar Product under the name Excalibur manufactured by others."

34 In addition, the agreement purported to transfer proprietary rights to the product to the parties mutually. Section 11 provided: "It is acknowledged and agreed that all proprietary (sic) rights to the Product including the name, design and other exclusive features comprising same, are the mutual property of the parties hereto. The manufacture of the Product by the Manufacturer and the distribution and marketing of same by the Distributor as herein provided shall, during the term hereof, be deemed to be pursuant to a license (sic) therefor mutually granted by and between the parties."

35 Further, as I have found, the agreement also precluded the use of the name Excalibur by either party unilaterally.

36 International relies on section 11 as the backbone of its case. It argues that the section gave International mutual proprietary rights with Sommerville in the design and other exclusive features of everything that Sommerville manufactured under the Excalibur name. It contends that since Sommerville produced the rip fence and sliding table under the name Excalibur it was precluded from manufacturing them independently of International, for sale under any other name. In the case of the Exc. II saw, it takes the argument one step farther. It contends that since the Exc. II saw used the parallel link mechanism to power it, and since that mechanism was

not used in any other saw on the market, Sommerville was precluded from manufacturing a saw that used that mechanism for anyone other than International.

37 I cannot accept International's interpretation of section 11. Such an interpretation renders the definition of "product" and section 10(vi) in the agreement unnecessary. It fails to recognize that proprietary rights in the name, design and other exclusive features of the product are what passed under section 11. The name, design and other exclusive features did not pass irrespective of proprietary rights. How could they? Proprietary rights are rights that an owner of property has by virtue of his or her ownership. Only an owner can transfer proprietary rights. Ownership includes the right to exclude others. At the time that Sommerville and International entered into the agreement on January 26, 1983 neither had any ownership rights in the Ex-1 or Ex-2 saw, or in the name Excalibur. Neither held any patents or trademarks. There was nothing to transfer to the other. However, even if section 11 purported to transfer future proprietary rights acquired by either party, it restricted those rights to rights in the "Product". That term was defined in the agreement as the Ex-1, Ex-2 and their replacements, improvements, and betterments. The Ex-1 and Ex-2 saws were powered by a parallel arm mechanism. The Exc. II saw which Sommerville manufactured after January 1985 used a completely different driver having no similarity to the parallel arm. In my view, Exc. II was not a replacement, improvement, or betterment of the Ex-1 or Ex-2. It was a totally different saw. But even if the Exc. II did come within the definition of product, Sommerville had no proprietary rights in it. The mechanism on which it was based, the parallel link, had been patented in 1870. By the time Sommerville produced it, anyone was free to use it. For these reasons I conclude that nothing in section 11 precluded Sommerville from designing or manufacturing a scroll saw for Black & Decker, independently of International, and nothing precluded it from causing S.M.I. to do so. There was no other provision of the agreement that prohibited Sommerville from manufacturing a scroll saw for Black & Decker, or precluded it from causing S.M.I. to do so, provided that it did not manufacture it under the name Excalibur. There is no allegation that was done.

38 It is unnecessary for me to decide whether the scroll saw that S.M.I. designed and manufactured for Black & Decker was the same saw as Exc. II. However, if such a finding were necessary to decide the issue, I find that it was not the same saw. A great deal of time and expense went into the design of the new saw. There were a number of mechanical differences between the two saws. There were no parts in the two machines that were interchangeable except for the blades. There were significant cosmetic differences. Black & Decker patented the trade dress on its new saw.

39 International also alleges that Sommerville unfairly competed by advertising a rip fence for sale in the February 1996 issue of *Woodworking News*, and by advertising for sale a rip fence and sliding table in the March to July 1996 issues. Sommerville advertised them for sale under its own name. In my view, there was nothing in the agreement that precluded Sommerville from marketing its own products provided that it did not do so under the name Excalibur. At the bottom of the rip fence ad there was a small notice "From the Designers and Manufacturers of 'Excalibur Fences'". A similar notice appeared at the bottom of the sliding table ad. I find that the notice did not constitute a sale of the products under the name Excalibur. The rip fence was not held out as the Excalibur rip fence, nor was the sliding table held out as the Excalibur sliding table. However even if the reference to Excalibur was objectionable, I find that the ads generated no business, except for the purchase by Joe Brakhage's wife of one rip fence, at the instigation of Philip Humfrey. If this was unfair competition, I find that it was insignificant, and had no effect on International's marketing business.

40 I find that neither Sommerville nor S.M.I. unfairly competed with International. Although International alleged in the counterclaim that Black & Decker unfairly competed, it failed to plead or prove any facts in support of the claim. The claim is frivolous and without merit.

Breach of Confidentiality

41 International claims that Sommerville breached a duty of confidentiality. It alleges that Sommerville was made privy to confidential information consisting of the names of International's customers and potential customers, details of its sales and marketing techniques and strategies and copies of its sales manual and other related literature. It contends that by raising its prices, and placing ads for the sale of product using the Excalibur trademark and undercutting International's prices Sommerville used confidential information to International's detriment. It alleges that Sommerville used confidential information of the business opportunity presented by Black & Decker to usurp the account. It also alleges that Sommerville revealed costing information that hampered International's ability to negotiate a supply contract with Black & Decker. It states that by hiring Pat Magro and Joe Brakhage Sommerville usurped International's marketing network.

42 In *LAC Minerals Ltd. v. International Corona Resources Ltd.*, [1989] 2 S.C.R. 574, LaForest, J. stated the test for establishing breach of confidence. It must be proved that the information conveyed was confidential, that it was communicated in confidence, and that the party to whom it was communicated misused it.

43 International failed to produce any documentary evidence at trial, to establish the confidential information that it alleges was communicated to Sommerville. No customer or dealer lists were produced. No sales manuals were produced. No catalogue or pricing list was produced.

44 I am satisfied that Sommerville probably knew the prices at which International sold Excalibur product. Based on that information Sommerville could easily have calculated International's margins. However there was no evidence that information was confidential or was communicated in confidence by International to Sommerville. Nor is there any evidence that Sommerville misused the information. In October 1995 Sommerville increased the prices at which it sold product to International. Thomas Sommerville testified that International had been advised that a price increase was coming and was asked for its sales projections in March or April 1995 but did not provide them until September 1995. Because of this delay, Sommerville was unable to make its forecasts. It gave notice within one month of receiving International's estimates. The increases were based on increased expenses, substantiated by documentation. In my opinion, the increases were made in good faith.

45 One, or perhaps two, issues of the magazine in which Sommerville advertised its two products would have appeared on the news stands before International went out of business. The ads were to sell product direct. International's business was dealer sales. International's pricing would have been of no use to Sommerville in marketing direct. Sommerville used the same product user manuals that International used. Philip Humfrey testified that he saw the ads and discussed them with Thomas Sommerville. He did not ask Sommerville to remove them. After International's agent purchased product from an ad, Philip Humfrey did not raise the issue of either the ads or the manual with Sommerville. In my view, International acquiesced.

46 1993 Philip Humfrey mentioned to Thomas Sommerville that he had demonstrated a scroll saw and sold two saws to a representative of Black & Decker. That was the only information that International conveyed to Sommerville. It did not use it. Approximately 18 months later Black & Decker contacted Sommerville. It was not until several weeks later that Thomas Sommerville realized that he was dealing with Black & Decker. International had never pursued the Black & Decker account. There was no account to pursue. Black & Decker was not interested in the name Excalibur. It was not interested in purchasing product. It was not interested in distributing product. Its interest was in design and manufacturing and its discussions with Sommerville focused in that direction. Sommerville did not receive any confidential information from International that it used, or could have used, in its relations with Black & Decker. There is no evidence that

Sommerville or S.M.I. ever conveyed any of International's pricing policies to Black & Decker.

47 Sommerville hired two of International sales representatives, Pat Magro and Joe Brakhage to sell its products. However, I am satisfied that it did not approach either of them until after International had terminated their services and closed its business.

48 I find no evidence that either Sommerville or S.M.I. breached any duty of confidentiality to International.

49 Breach of Fiduciary Relationship

50 A fiduciary duty is the highest duty in law. There are three general characteristics to relationships where a fiduciary duty has been imposed:

1. The fiduciary can exercise discretion or power.
2. The fiduciary can unilaterally exercise that discretion or power to affect the beneficiary's legal or practical interests.
3. The beneficiary is peculiarly vulnerable to or at the mercy of the fiduciary.

51 Courts have been extremely reluctant to impose or recognize a fiduciary duty in the context of arms length commercial relationships, which are competitive and profit motivated. There must be compelling reasons to impose this high duty such as the absolute reliance of the one party on the other: *Ben-Israel v. Vitacare Medical Products Inc.*, [1997] O.J. No. 4540 at para. 39 et seq. (Ont. Ct. Gen. Div.).

52 In the circumstances of this case there is no basis for finding that either Sommerville or S.M.I. had the ability to unilaterally exercise discretion or power over matters which affected International. International was not at its mercy. To the contrary, when the trademark Excalibur was registered solely in the name of International, it was Sommerville that was peculiarly vulnerable to and at the mercy of International. This vulnerability is illustrated by the fact that on August 28, 1991 International pledged all of its assets including the trade name Excalibur to its bank under a general security agreement. In March 1994 International obtained a release of the trademark from the provisions of the security agreement in order to transfer the trademark into the name of Philip Humfrey personally. None of this was communicated to Sommerville. It did not come to its attention until these proceedings were underway.

Loss of Business Reputation

53 Although International claims damages against Black & Decker for loss of business reputation it failed to plead or prove any facts in support of such a claim. It is frivolous and without merit.

Inducement to Breach Contract

54 International alleges that Black & Decker induced Sommerville to breach its contract with International. In order for International to succeed it must prove that Sommerville breached the contract, that Black & Decker had knowledge of the contract between Sommerville and International and that Black & Decker intended that Sommerville would breach its contract.

55 There is no evidence that Black & Decker had any knowledge of the nature of the contractual relationship between International and Sommerville. It had no prior relationship with either of them. Philip Humfrey told Michael O'Banion that Sommerville was the exclusive seller of Excalibur machines. There was no discussion of proprietary rights. Black & Decker had no interest in using the name Excalibur. Thomas Sommerville told Michael O'Banion that there was nothing that prevented Sommerville from designing a saw for Black & Decker. When Philip Humfrey became aware that Sommerville and Black & Decker were having discussions, which was not a secret in the tool world, he made no attempt to contact Black & Decker. I find that Black & Decker was not aware of the agreement between International and Sommerville. I have also found that Sommerville was not precluded from designing or manufacturing a scroll saw for Black & Decker. Sommerville was not in breach of the contract. Consequently there was no inducement by Black & Decker to Sommerville to breach the contract, even if Black & Decker had been aware of it.

The Trademark

56 Section 18 of the agreement of January 26, 1983 provided: "In the event that this agreement is terminated due to the default of either party then the defaulting party forfeits all rights to the trade name "Excalibur"". International was in financial difficulties. It failed to pay its account. I accept that in the summer of 1995 Philip Humfrey told Pat Magro and Joe Brakhage that he intended to sink Sommerville with the receivables, to start again and to reproduce product through another manufacturer for sale under the trademark Excalibur. In my opinion, that was Philip Humfrey's plan, and the closing of International came about as a result of that plan. The agreement was terminated as a result of International closing its business and failing to pay Sommerville what it owed. Under section 18 of the agreement, International forfeited all rights to the trade name. Sommerville became entitled to it. In view of the agreement of March 26, 1991 and my determination that there was no change in the contractual relationship of the parties after the registration of the trademark there is no reason to distinguish between the trade name and the trademark.

The Licence to E.M.T.

57 On March 6, 1997 International granted a licence to E.M.T. to use the trademark Excalibur in the operation of its business, in consideration of the payment of ongoing licensing fees. International granted the licence after Sommerville had obtained judgment for \$319,185.45 on June 26, 1996. The licence was granted in spite of a provision in the judgment that the defendant was to maintain all records of sales made by the defendant under the trademark Excalibur and provide all particulars of those sales to the plaintiff on a monthly basis until trial. Philip Humfrey testified that records of the sales were not produced to the plaintiff pursuant to the provisions of the judgment because a different company, E.M.T., was making the sales. Philip Humfrey is the owner of and the guiding hand of E.M.T. Under these circumstances, I have no hesitation in finding that the conveyance of the licence was made with the intention of defeating or delaying creditors.

Damages

58 The financial statements that International filed were incomplete and unreliable. The accountant of the corporation was not called as a witness. Philip Humfrey's evidence contradicted the very statements that International relied on. If his evidence was correct, the sales figures shown on the financial statement were wrong, the payables shown were understated and the accounts receivable were overstated. Consequently, there was no credible evidence upon which I could conclude that International suffered any damage.

Heading of Proceedings

59 I note that Sommerville recovered judgment in these proceedings in the amount of \$319,185.45 plus interest on June 26, 1996. The title of the proceedings at that time was Sommerville Design and Manufacturing Inc. as plaintiff (defendant by counterclaim) and J.P. Humfrey International Inc. as defendant (plaintiff by counterclaim). It appears that the judgment was against the defendant so named. Since June 1996 there have been numerous amendments of the statement of claim, the statement of defence and counterclaim and the statement of defence to counterclaim. The final version of each of these documents in the trial record bears a differently styled heading. So that there is no confusion I am ordering that the heading of this proceeding be amended nunc pro tunc to accord with the heading on this judgment. Further, the judgment of June 26, 1996 is amended nunc pro tunc to show that judgment was granted against the defendant J. Philip Humfrey International Inc. This accords with the evidence I heard at trial.

Disposition

60 For these reasons, a judgment of this Court shall issue in this action as follows:

1. The conveyance by International to E.M.T. of a licence to use the trademark Excalibur under an agreement dated March 6, 1997 is set aside as a fraudulent conveyance.
2. As between International and Sommerville, Sommerville is declared to be the rightful owner of the trademark Excalibur. International is ordered to transfer the trademark Excalibur to Sommerville immediately.
3. E.M.T. and International shall cease immediately to manufacture, market or advertise, directly or indirectly, any product under the trademark Excalibur.
4. International and E.M.T. shall pay Sommerville its costs of this action.
5. International's counterclaim against Sommerville and S.M.I. is dismissed with costs.
6. International's counterclaim against Black & Decker is dismissed with costs.

LACK J.

qp/d/rsm