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IN THE HIGH COURT OF JUDICATURE AT BOMBAY
ORDINARY ORIGINAL CIVIL JURISDICTION

ARBITRATION PETITION NO.1061 OF 2014

EuroKids International Private Limited,
a company registered under the
Companies Act, 1956, having its
registered office at Dani Corporate
Park, 158, Vidyanagri Marg,
Kalina, Santacruz (E), Mumbai – 400 098

...Petitioner

..Versus..

Bhaskar Vidhyapeeth Shikshan Sanstha,
represented by Mr.Ashvin Kachwal
having its principal office at D3/196,
Chitrakoot, Vaishali Nagar,
Jaipur, Rajasthan – 302 023

...Respondent

Mr.Hamed Kadiani i/b Mr.Sandeep Marne for the Petitioner.

Ms.Megha Chandra with Ms.Nidhi Sharma i/b Dharam & Co. for the
Petitioner.

CORAM : R.D. DHANUKA, J.
RESERVED ON : 18TH JUNE, 2015
PRONOUNCED ON : 1ST JULY, 2015.

JUDGMENT :-

1. By this petition filed under section 9 of the Arbitration & Conciliation Act, 1996 (for short the said "Arbitration Act"), the petitioner seeks an order and injunction against the respondent from operating any EuroKids School or using the method, license rights or any other traded name, logos, devices, insignia, procedures or from holding himself out in any way as a franchisee of the petitioner and for

various other reliefs. Some of the relevant facts for the purpose of deciding this arbitration petition are as under :

2. On 3rd June, 2009, the petitioner and Mr.Ashish Sharma, who is brother of Mr.Ashwin Kachwal had entered into an agreement whereby the petitioner agreed to license the proprietary marks of the petitioner for an initial period of about three years ending on 31st March, 2012. On 5th March, 2012, the petitioner agreed to renew the franchise agreement however, on the additional terms and conditions. It is the case of the petitioner that the respondent had started advertising for academic year April, 2012 to March, 2013 without awaiting confirmation of the terms of the petitioner. On 23rd August, 2012, the petitioner executed a fresh franchise agreement but restricted the initial term of the same till 31st March, 2013. It is the case of the petitioner that the respondent did not pay royalty fee and also had issued instructions to stop payment of the cheques issued to the petitioner. Though the respondent agreed to clear the outstanding royalty amount, the respondent did not clear such outstanding royalty fee.

3. On 11th March, 2013, the petitioner issued a cease and desist notice informing the respondent of its decision not to renew the franchise agreement and called upon the respondent to comply with the formalities of de-recognition of the respondent as franchisee of the petitioner. The respondent vide its e-mail dated 17th March, 2013 raised various issues and protested against the termination of the franchise agreement. The petitioner by its letter dated 20th March, 2013, once again alleged that the respondent had committed various defaults. The respondent vide its e-mail dated 22nd March, 2013, denied the right of the petitioner to terminate the agreement and

alleged that the respondent had made payment of the sum of Rs.70,416/- as license fee for the term 2013-2014 and also paid the outstanding dues and other sums towards uniforms etc.

4. On 9th July, 2013, the petitioner through its advocate issued a fresh cease and desist notice addressed to the respondent highlighting infringement of the petitioner's proprietary marks. On 25th February, 2013, the petitioner issued a legal notice and appointed Mr.Sunil Payak as the sole arbitrator in accordance with clause 15 of the franchise agreement.

5. On 26th March, 2013, the respondent through its advocate replied to the said notice and demanded a sum of Rs.15.00 lakhs allegedly being the cost of the manufacture and purchase of the copyright material of the petitioner. It is the case of the petitioner that the respondent continued to use proprietary marks of the petitioner without being paying the license fee for last two years and also royalty amount and have continued to use the same though the said franchise agreement has been terminated by the petitioner.

6. Learned counsel for the petitioner invited my attention to the various provisions of the franchise agreement entered into between the parties. Reliance is placed on clauses 5.1.4, 7.2.4, 7.5, 10.1, 12.1 and 13.1 of the said franchise agreement and it is submitted that under the said provisions, the respondent who was franchisee, upon termination of the franchise agreement was under an obligation to return the franchiser all equipment, materials, manuals, information and all other items that franchisee received from franchiser, including all copies thereof and notes thereon which franchisee may have or control. Under the said provisions, the

respondent had also undertaken to obtain understanding such confidentiality from its personnel and had undertaken not to carry out the same or similar activity for a period of one year under any other brand name.

7. The respondent had agreed to use the proprietary marks of the petitioner only for so long as the franchisee and the license granted under the said agreement remained in force and also in connection and in accord with the method, and in compliance with the said franchise agreement. The franchisee had also agreed not to use the proprietary marks or hand over the names containing such name or any of the proprietary marks in or part of the firm or corporate name of the franchisee.

8. Under clause 10.1, it is agreed by the franchisee that during the term of the said agreement and three years thereafter it would not engage, directly or indirectly, in any capacity, in any business activity with pre-school children except as provided in the said franchise agreement or in any other similar business with any person without advance written consent of the franchiser. The franchisee also agreed not to carry out the Eurokids pre-school activity any place other than the site location without prior permission of franchiser. Clause 12.1 provides for termination of the franchise agreement. Under clause 13.1 it is provided that upon termination, expiration or cancellation of the said agreement, the franchisee shall cease to authorize the franchisee and shall immediately discontinue the use of the method in its entirety all the proprietary marks, and any names, marks, or signs which may be confusingly the similar thereto and all other materials which may indicate that franchisee is or was an authorized franchisee or otherwise associated with franchiser.

9. The franchisee further agreed to return to the franchiser all materials (utilized and unutilized) containing any reference to franchiser, and to cancel any pending advertising and discontinue future advertising which refers to or cannotes any relationship between franchisee and franchiser.

10. Learned counsel for the petitioner invited my attention to the correspondence exchange between the parties. My attention is also invited to a letter dated 26th March, 2014, addressed by the respondent through its advocate in reply to the notice dated 25th February, 2014 which was issued by the petitioner's advocate. He submits that even in the said reply, the respondent has not disputed that the petitioner had copyright over the material in possession of the respondent but the respondent had refused to return the said copyright material on the ground that the respondent had spent a sum of Rs.15.00 lakhs and till the same was returned by the petitioner, the respondent would not return such copyright material and had full right to use the said material for the use and engagement in its school for the academic year 2013-2014.

11. Learned counsel for the petitioner submits that in view of various negative covenants in the agreement and in view of the franchise agreement entered into between the parties, having come to an end in view of the termination notice, the respondent cannot be allowed to use any copyright material and trade marks of the petitioner. He submits that the respondent has continued to use the proprietary materials of the petitioner in breach of the agreement. In support of this submission, learned counsel placed reliance on the newspaper advertisement issued by the respondent, which according

to the petitioner establishes unauthorized use of the proprietary mark of the petitioner without a valid license. The petitioner therefore, has prayed for various interim measures.

12. Learned counsel for the respondent on the other hand submits that the petitioner in this petition filed under section 9 of the Arbitration Act has raised the dispute regarding infringement of intellectual property rights allegedly held by the petitioner in the material and/or equipment provided by the respondent for running of Eurokids school which dispute can be exclusively tried by a Civil Court since the petitioner ceases to exercise a right in rem which would not be an arbitral dispute.

13. It is submitted by learned counsel that this Court cannot direct the respondent to disclose the amounts that had been collected by the respondent from 2012 till date and to grant any permission to the petitioner to withdraw the said amount, since the said relief is in the nature of the final relief at the interlocutory stage, which is not permissible. In support of this submission, learned counsel for the respondent placed reliance on the judgment of the Supreme Court in the case of *Booz Allen & Hamilton Inc. vs. SBI Home Finance Ltd. & Ors.* AIR 2011 SC 2507 and more particularly paragraphs 22, 23 and 25. It is submitted by learned counsel for the respondent that even if there was any negative covenant on the part of the respondent, such negative covenant cannot be enforced post termination of the agreement. In support of this submission, learned counsel placed reliance on the judgment of the Supreme Court in the case of *Superintendence Company of India (P) Ltd. vs. Sh. Krishan Murgai*, AIR 1980 SC 1717 and in particular paragraphs 6 and 21.

14. It is submitted by learned counsel for the respondent that the respondent has not been using any trade mark or copyright mark of the petitioner. Merely because of the clever drafting of the petitioner, the petitioner is trying to show that there is no dispute about any infringement of the trade mark or copyright proposed to be raised by the petitioner. She submits that the balance of convenience is in favour of the respondent. In support of this submission, learned counsel for the respondent placed reliance on the judgment of the Supreme Court in the case of *Sopan Sukhdeo Sable & Ors. vs. Assistant Charity Commissioner & Ors. AIR 2004 SC 1801* and in particular paragraphs 11 and 12.

15. Learned counsel for the petitioner in rejoinder submits that the petitioner has not filed any statement of claim before the learned arbitrator so far. The petitioner has not filed any proceedings, which would be the proceeding in rem. The petitioner seeks enforcement of the negative covenant in respect of the franchise agreement which the respondent had agreed to comply with. He submits that there is no dispute between the parties about the ownership of the petitioner in the trade mark and copyright of various materials and thus no right in rem is claimed by the petitioner.

16. A perusal of various provisions referred to aforesaid, clearly indicates that when the respondent was granted a license under the said franchise agreement dated 23rd August, 2012 till the said franchise agreement was subsisting. The respondent has ceased to be an authorized franchisee in view of the termination of the said franchise agreement by the petitioner or by efflux of time. Upon such termination, the respondent had agreed to discontinue the use of the method in its entirety, all proprietary marks and any names, marks or

signs immediately and to return to the franchiser all materials containing in reference to the franchiser and to cancel any pending advertising and to continue future advertising which referred to or connotes any relationship between the franchisee and franchiser.

17. A perusal of the letter dated 26th March, 2014 addressed by the respondent through its advocate clearly indicates that the respondent has not disputed the ownership of the petitioner of the copyright and trademark in the material and other items in possession of the respondent. On the contrary, it is contended by the respondent that since the respondent has spent a sum of Rs.15.00 lakhs for the manufacture / purchase of such material, the respondent had right to use the said copyright material for the use and enjoyment of the said school till the petitioner would return the sum of Rs.15.00 lakhs to the respondent. In my view, the submission of learned counsel for the respondent that the petitioner has no copyright or trade mark in such material has no merits. A perusal of the agreement as well as the correspondence entered into between the parties clearly indicates that the trade mark and the copyright of the petitioner is not in dispute.

18. By this petition filed under section 9 of the Arbitration Act, the petitioner has only applied for an order and injunction against the respondent from operating any EuroKids School or using the method, license rights or any other traded name, logos etc. and seeks to restrain the respondent from using of such trade mark and copyright in those items and the trade name of the petitioner in compliance with its obligations under the said franchise agreement and other related reliefs. The petitioner has not filed any statement of claim before the learned arbitrator. The judgment of the Supreme Court in the case of

Booz Allen & Hamilton Inc. (supra) thus does not assist the respondent. In my view, since there is no dispute about the trade mark and copyright of the petitioner in various items, the proceedings filed by the petitioner is not in the nature of the proceedings in rem. In any event as and when the statement of claim is filed and if any such relief which would be in the nature of the proceedings in rem is claimed, the respondent can always raise issue of jurisdiction before the learned arbitrator.

19. This Court has considered the similar argument in the case of redemption of mortgage while dealing with the matter under section 9 of the Arbitration Act in the case of *Tata Capital Financial Services Ltd. vs. M/s.Deccan Chronicle Holdings Limited & Mr. T. Venkatram Reddy*, 2013 (3) Bom.C.R. 205. It is held by this Court that since the petitioner therein had not filed any statement of claim before the arbitral tribunal, seeking any enforcement of the mortgaged property, this Court cannot reject the petition under section 9 of the Arbitration Act on the presumption that even in the arbitration proceedings, the petitioner would apply for enforcement of the mortgage and which would be beyond jurisdiction of the arbitral tribunal. Paragraphs 34 of the said judgment reads as under :-

“34. On perusal of Judgment of Supreme Court in case of *Booz Allen* MANU/SC/0533/2011 : (2011) 5 SCC 532 (supra), it is clear that Supreme Court, after considering the prayers in the plaint in a mortgage suit, has held that as the suit was for enforcement of mortgage and was a suit in rem, issue of arbitrability having raised by the defendant in such suit and the application filed under Section 8 of the Act, such issue of arbitrability has to be decided by the Court hearing the suit and cannot be left to be decided by the arbitral tribunal. Question, however, arises for consideration of this Court in the present proceedings is whether in an application under Section 9 of the Act while deciding a

relief in the nature of interim measures and in the absence of the plaint before this Court, whether this Court shall decide the issue of arbitrability of the claims which are not even before this Court and on that ground, dismiss the application under Section 9 for interim measures ?

It is not in dispute that the petitioners have not filed any statement of claim before the arbitral tribunal seeking any enforcement of the mortgaged property under deeds of mortgage in so far as ARBP No. 1321 of 2012 is concerned. The learned counsel appearing for the petitioner in both the matters submit that considering the law laid down by the Supreme Court in case of *Booz Allen* (supra), petitioner would not apply for enforcement of mortgage in the arbitration proceedings and on this ground, this Court cannot reject the present application under Section 9 on the presumption that even in the arbitration proceedings, the petitioner would apply for enforcement of mortgage and which would be beyond the jurisdiction of the arbitral tribunal. On perusal of the Supreme Court judgment in case of *Booz Allen* MANU/SC/0533/2011 : (2011) 5 SCC 532 (supra), in my view, it is clear that if the plaint and/or statement of claim before the arbitral tribunal is not before the Court while hearing application under Section 9 of the Act, Court cannot reject the application for interim measures on the ground that the petitioner may ultimately apply for enforcement of mortgage which would be beyond the jurisdiction of the arbitral tribunal. In my view, it is for the petitioner to decide what claims the petitioner would make before the arbitral tribunal. If the petitioner choses not to apply for enforcement of mortgage and files a simpliciter suit for recovery of money or for enforcement of any other properties which were not mortgaged by the respondents in favour of the petitioners, such proceedings would be the proceedings in personam and not in rem which obviously would be within the jurisdiction of the arbitral tribunal to adjudicate upon. In my view, even if any such relief by way of enforcement of mortgage is claimed before the arbitral tribunal, petitioner would always have liberty to decide whether to withdraw such claims and/or seek amendment for moulding its

reliefs, which would be within the jurisdiction of the arbitral tribunal. In my view, if any such reliefs are claimed which are beyond the jurisdiction of the arbitral tribunal and cannot be adjudicated upon, mechanism under Section 16 is provided by the legislature to raise issue of jurisdiction by the respondents before the arbitral tribunal. On hearing such application under Section 16, an arbitral tribunal can always decide whether any of the claims made by the claimants were within its jurisdiction to adjudicate upon. In my view, proceedings under Section 9 filed in this Court by the petitioner for interim measures, cannot be equated with the proceedings filed in a pending suit for referring the parties to arbitration under Section 8 of the Act of 1996. Thus, in my view, reliance placed by the respondents on the Judgment of Supreme Court in case of *Booz Allen* (2011) 5 SCC 532 (supra) is of no assistance to the respondents while opposing application under Section 9 of the Act of 1996.”

20. Insofar the judgment in the case of *Superintendence Company of India (P) Ltd.* (supra) relied upon by learned counsel for the respondent is concerned, the facts of the said judgment before the Supreme Court were totally different. In this case, the respondent had agreed not to use any trade mark and copyright of the petitioner upon termination of the franchise agreement and such right is enforceable in law and violation of any such negative covenant can be restrained by an order of injunction of this Court.

21. Insofar as the judgment of the Supreme Court in the case of *Sopan Sukhdeo Sable & Ors.* (supra), relied upon by the respondent is concerned, it is held by the Supreme Court while dealing with the application under order VII Rule 11 of the Code of Civil Procedure that the basic question that has to be decided is whether a real cause of action has been set out in the plaint or

something purely illusory has been stated with a view to get out of Order VII Rule 11 of the Code of Civil Procedure. In my view, the said judgment of the Supreme Court does not assist the respondent in any manner whatsoever. The present proceedings are filed under section 9 of the Arbitration Act. The petitioner has not as yet filed any statement of claim before the learned arbitrator. Be that as it may, in my *prima-facie* view, since there is no dispute about the trade mark and copyright of the petitioner in various materials and other items being used by the respondent, the proceedings filed by the petitioner is not the proceeding in rem. In my view, there is thus no merit in the submission of the learned counsel for the respondent.

22. In my view, the respondent cannot be allowed to use the trade mark and copyright of the petitioner merely on the ground that the respondent had a money claim against the petitioner and till such amount is paid by the petitioner, the respondent can use the said trade mark and copyright of the petitioner of such material. The said contention of the respondent clearly indicates that the respondent has not disputed the trade mark and copyright of the petitioner in such material which is in possession of the respondent.

23. In my view, the petitioner has made out a case for interim measures. A copy of the newspaper advertisement annexed to the petition at Exhibit "T" clearly indicates that the respondent has continued to use the proprietary mark of the petitioner contrary to the negative covenant not to use such proprietary marks of the petitioner post termination of the franchise agreement. In my view, the balance of convenience is in favour of the petitioner and not the respondent.

24. In my view, there is no substance in the submission of the

respondent that this Court cannot direct the respondent to disclose the amounts collected by the respondent under section 9 of the Arbitration Act. In my view, in view of the provisions of the agreement, the petitioner can apply for enforcement of the negative covenant even upon terminating the agreement or on the agreement coming to an end on efflux of time.

25. I therefore, pass the following order :-

a). The arbitration petition is made absolute in terms of prayer clauses (a-i), (a-iii), (a-iv) and (a-viii).

b). The respondent is directed to disclose on affidavit in terms of prayer clause (a-iv) within four weeks from the date of communication of this order. Upon such disclosure on affidavit in terms of prayer clause (a-iv) by the respondent, the petitioner would be at liberty to seek further interim measures before the learned arbitrator under section 17 of the Arbitration Act.

c). The petitioner is directed to take steps for appointment of the arbitral tribunal in accordance with the arbitration agreement within four weeks from today.

d). The arbitration petition is disposed of in the aforesaid terms. There shall be no order as to costs.

(R.D. DHANUKA, J.)