

A client may terminate a service agreement to further its own commercial interests, Superior Court of Québec rules

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Key Takeaways

- The Superior Court of Québec ruled that YPG's termination of a service agreement was done in good faith; it aimed to reduce costs by switching to a competitor.
- The Court reaffirmed the discretionary nature of a client's right to terminate a service contract under the *Civil Code of Québec*.
- The Court also noted that the scope of "injury" giving rise to a termination indemnity must be interpreted narrowly.

On December 10, 2025, the Superior Court of Québec handed down a judgment affirming the client's right to terminate a service agreement to further its own commercial interests.^[1] The dispute arose from a service agreement (the agreement) under which Quad/Graphics, Inc. (Quad) had been printing telephone directories for Yellow Pages Digital & Media Solutions Limited (YPG). Quad claimed about \$42.5 million in damages from YPG, alleging that YPG had acted in bad faith by terminating the agreement only to obtain the same services from a competitor on more favourable terms.

The Court dismissed the claim, finding that YPG had at all times acted in good faith and in accordance with its right to terminate the agreement under article 2125 of the *Civil Code of Québec* (CCQ). While Quad argued that YPG had terminated the agreement in bad faith after extending its term to extract concessions from Quad, the Court instead concluded that "YPG acted to protect its own interest but had no intention of harming or prejudicing Quad beyond the consequences inherent in the termination itself."^[2] The Court also held that the damages claimed by Quad fell outside the scope of the termination indemnity to which it was entitled under article 2129(3) CCQ.

The agreement and events leading up to the termination

Over the years, the agreement was amended four times to reflect the changing landscape of the directory industry, but it is the fourth and last amendment that became central to Quad's claim (the fourth amendment).

Under the fourth amendment, both parties made significant concessions to sustain their business relationship amidst the decline of the telephone directory industry and the growing gap between the prices offered by Quad and market prices. On the one hand, YPG made an upfront payment of \$10 million to Quad; settled all outstanding invoices; committed to paying future invoices in advance; assumed responsibility for freight, transportation and brokerage costs; and agreed to supply paper to Quad. On the other hand, Quad provided substantial discounts and waived minimum volume guarantees, which had, until then, exposed YPG to significant penalties in the event that the volume of printed pages fell below a certain threshold. The parties also agreed to a four-year extension of the agreement.

In the years following the fourth amendment, several developments strained the parties' business relationship. Quad consolidated its operations in the United States, such that all of YPG's directories were now being printed there. This shift increased YPG's freight and logistics costs. Compounding these challenges, the imposition of trade tariffs on groundwood paper imports from Canada to the United States further escalated costs. Finally, YPG sought to reduce costs by outsourcing the end distribution of its directories to Canada Post, but Quad was unable to provide the mail preparation services required for Canada Post distribution at a reasonable price.

The circumstances led YPG to evaluate the cost-effectiveness of Quad's offering compared to the offerings of its competitors through a by-invitation request for proposals (the RFP). This process led YPG to realize that it could obtain the printing and mail preparation services it needed from a Canadian-based competitor at a significantly lower cost. This led YPG to enter into a contract with a Quad competitor and terminate its agreement with Quad.

YPG exercised its right to unilaterally terminate (i.e., resiliate) the agreement under article 2125 CCQ, which allows the client to terminate a service agreement before its term. The parties did not dispute that YPG was allowed to terminate the agreement pursuant to article 2125 CCQ. The case hinged on whether YPG had exercised its right of termination in bad faith and whether Quad was entitled to the amount it claimed as a termination indemnity pursuant to article 2129(3) CCQ.

Quad contended that it had made concessions as part of the fourth amendment because YPG had agreed to a four-year extension of the agreement. It argued that YPG had acted in bad faith by terminating the agreement early and sought compensation for the value of these concessions, which Quad alleged amounted to \$42.5 million for the period between the fourth amendment and the termination.

The termination was in good faith

Under article 2125 CCQ, the right of termination is discretionary, such that the client need not justify its decision. Nonetheless, the client cannot abuse its right and must instead exercise it in good faith. In this case, the Court found no evidence that YPG had acted in bad faith.

The mere fact that a client terminates a contract cannot, in and of itself, amount to abuse or bad faith. Because the right of termination is discretionary in nature, Quad had to prove that YPG had terminated the agreement with the intention of harming Quad or that it had committed a gross fault harming Quad beyond the harm resulting naturally from the termination. The Court ruled that Quad had failed to meet its burden of proof in this regard.

The Court highlighted that YPG had not waived its right of termination under article 2125 CCQ, whether by granting Quad exclusivity, agreeing to termination provisions or agreeing to a fixed term and later extending it. "Even if the parties originally set a term to 2020 and extended the term to 2024, this does not consist in a waiver by YPG of its right to unilaterally

resiliate the Agreement under article 2125 C.C.Q. nor does it prove that YPG was acting in bad faith when the extension was granted or the Agreement resiliated”, the Court wrote.^[3]

The Court found that “[i]t is not abusive or in bad faith for a company to look out for its best interest and go to the market to assess the situation. YPG no longer believed that it was in its best interest to remain with Quad given the distance, the border that separated them and all the complications that it implicated.”^[4] Accordingly, the fact that YPG had initiated an RFP, signed a printing agreement with a Quad competitor a few days before terminating the agreement and did not give Quad an opportunity to match the competitor’s terms did not demonstrate bad faith on the part of YPG. In other words, “YPG acted to protect its own interest but had no intention of harming or prejudicing Quad beyond the consequences inherent in the termination itself.”^[5]

The termination indemnity excluded price and other concessions

A central issue in dispute was whether the value of Quad’s price concessions and foregone volume penalties, which formed part of the fourth amendment bargain, fell within the scope of “any other injury” as contemplated by article 2129(3) CCQ. The Court ruled that this was not the case.

The Court found that the evidence did not support Quad’s argument that the concessions were made specifically to secure the extension of the term. Therefore, the value of these concessions was not an “injury” resulting from the termination and Quad was not allowed to claim this value as a termination indemnity pursuant to article 2129(3) CCQ.

The Court distinguished this case from a trilogy of decisions rendered by the Court of Appeal of Québec.^[6] Notably, in both *Bell* and *Rogers*, the Court of Appeal upheld the Superior Court’s finding that discounts granted specifically in exchange for the client’s agreeing to a fixed-term service agreement constitutes an “injury” which the service provider can recover as a termination indemnity under article 2129 CCQ. However, in Quad’s case, the Court found that the extension of the term was incidental at best to Quad, that it was definitely not a “make-or-break condition” and that Quad made no particular concession as a result of the extension of the term.

Conclusion

This case reaffirms the discretionary nature of a client’s right to terminate a service agreement pursuant to article 2125 CCQ. The client is free to exercise it for its own commercial interests — for instance, in order to obtain the same service on more favourable terms elsewhere.

As for the “injury” giving rise to a termination indemnity under article 2129(3) CCQ, the provision must be interpreted narrowly. The service provider may claim compensation for a discount or some other concession granted to the client, but only if it proves that it made the concession specifically in exchange for the fixed term of the contract.

The authors represented Yellow Pages Digital & Media Solutions Limited on this matter.

[1] *Quad/Graphics Inc. c. Yellow Pages Digital & Media Solutions Limited*, 2025 QCCS 5159 (*Quad/Graphics*).

[2] *Quad/Graphics*, para. 116.

[3] *Quad/Graphics*, para. 106.

[4] *Quad/Graphics*, para. 126.

[5] *Quad/Graphics*, para. 116.

[6] *Gagnon c. Bell Mobilité inc.*, 2016 QCCA 1496 (*Bell*), and *Rogers Communications s.e.n.c. c. Brière*, 2016 QCCA 1497 (*Rogers*), both 2016 judgments in separate class action lawsuits which were heard in a joint hearing by the Court of Appeal, and *Masson c. Telus Mobilité*, 2019 QCCA 1106 (*Telus*), a judgment rendered by the Court of Appeal in 2019 in a class action lawsuit.