

# NO GOODWILL ABSENT USE OR REGISTRATION - RECENT DECISION CONFIRMS ESTABLISHED TRADEMARK PRINCIPLES

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A recent decision of the Ontario Divisional Court provides a welcome course-correction for trademark law. In *2788610 Ontario Inc. v. Bhagwani* (“*Bhagwani*”)[1], the Divisional Court vacated an interlocutory injunction prohibiting the defendants from using the term “Bombay Frankie” as the name of any restaurant or franchise business they operate. The original decision had been widely criticized for misapplying fundamental principles of trademark law (and the test for granting an interlocutory injunction).

More specifically, the decision at first instance granted the plaintiff, who was the first to file a trademark application for the mark “Bombay Frankies” but who had not yet used the mark, an interlocutory injunction precluding the defendants, who were already operating two restaurants bearing the name “Bombay Frankie”, from using that mark pending trial.

In vacating the interlocutory injunction, the Divisional Court confirmed that a person who has filed a proposed use trademark application cannot sue for trademark infringement until the trademark actually issues. The Divisional Court also confirmed that while an unregistered trademark owner may sue for passing-off, doing so requires a finding that the mark has developed goodwill.

## Facts and The Motion Court Decision

The plaintiff was incorporated, and filed an application to register the trademark “Bombay Frankies” in connection with restaurant services, in October 2020, but had not yet commenced use of the mark. At the time (and when it commenced proceedings against the defendants), however, it was only in the process of developing a franchise system of restaurants and had not yet opened or advertised a restaurant by that name. The plaintiff had not started using the mark and had no reputation associated with the mark at the time of the hearing.

The defendants, also in the restaurant business, had previously used the term “frankie”[2] on a number of menu items in several of their restaurants (which include the Indian Street Food Co.). In early 2021, the defendants filed an application to register the trademark “Bombay Frankie”, registered the domain name [www.bombay-frankie.com](http://www.bombay-frankie.com) and, later that year, opened two restaurants bearing the “Bombay Frankie” name.

The plaintiff commenced an action against the defendants for trademark infringement and passing-off and moved for an interlocutory injunction restraining them from using the term “Bombay Frankie” as the name of any restaurant, website or social media account. The motion judge granted the interlocutory injunction.

Applying the well-known *RJR-MacDonald Inc. v. Canada (Attorney General)*<sup>[3]</sup> test, the motion judge found as follows:

1. There is a serious issue to be tried as to whether the plaintiff's claim to the trademark crystallizes on the trademark application date or the trademark registration date (the plaintiff argued that, pursuant to s. 16(2) of the *Trademarks Act*, the defendants cannot secure registration of their trademark because, when their application was made, the plaintiff's application for a confusing trademark was already pending). The motion judge accepted the plaintiff's submission that this is a novel claim and that it met the low threshold required to establish a serious issue to be tried;
2. The plaintiff would suffer irreparable harm which is not monetarily compensable if the injunction was not granted. The motion judge ruled that until the “priority issues” were resolved at trial, the defendants would have a significant advantage if they were permitted to continue operating restaurants under the Bombay Frankie name; and
3. The balance of convenience favoured the plaintiff. Although the motion judge acknowledged that the defendants would be inconvenienced, she ruled that one party should not have an advantage over the other in developing a reputation and goodwill under the confusing trademark.

In granting the interlocutory injunction, the motion judge effectively ruled that the mere filing of a trademark application, without actual use of the mark, created an enforceable right. Such ruling stood in stark contrast to established trademark law.

### **The Divisional Court Decision**

Acknowledging that the motion judge's decision was discretionary and subject to deference, Justice Nishikawa (writing for the Divisional Court) noted that where an erroneous finding of fact is attributable to an incorrect legal standard, or there is a failure to consider a required element of a legal test or similar error in principle, such error is one of law that must be reviewed on the standard of correctness.<sup>[4]</sup> The Divisional Court went on to conclude that the motion judge made such errors, and vacated the interlocutory injunction.

### ***No Serious Issue to be Tried***

With respect to the serious issue to be tried element of the interlocutory injunction test, the Divisional Court concluded that the motion judge made an error in principle. More specifically, the Divisional Court found as follows:

- a. In holding there was a serious issue to be tried, the motion judge must have found that the plaintiff had a right to the Bombay Frankies name merely by virtue of its trademark application or presumed that its trademark would in fact be registered – both of which are errors of law;<sup>[5]</sup>
- b. In order to state a cause of action for trademark infringement under s. 19 or 20 of the *Trademarks Act*, a claimant must have a registered trademark that is alleged to have been infringed. In this case, however, while the plaintiff had filed an application to register the “Bombay Frankies” mark, its application has yet to be examined, approved or advertised for opposition by the Registrar of Trademarks. There is no certainty that the plaintiff’s application for trademark will be registered (and the Court noted that the Registrar may refuse to register it on the basis that it is not distinct or on the basis of opposition);<sup>[6]</sup> and
- c. Because the plaintiff has no registered trademark, it has no claim for trademark infringement under the Trademarks Act and no right that could ultimately be vindicated at trial.<sup>[7]</sup>

As a result, the Divisional Court ruled, the plaintiff’s claim for trademark infringement cannot meet even the low threshold of a serious issue to be tried.

The Divisional Court also considered whether the plaintiff’s passing-off claim raised a serious issue to be tried, something the motion judge did not specifically address. In finding that it did not, the Divisional Court confirmed that, among other things, to establish passing-off under s. 7(b) and (c) of the *Trademarks Act* a plaintiff must show the existence of goodwill in a trademark in association with its goods or services and ownership of a valid registered or unregistered mark. Citing prior case law, the Divisional Court noted that “goodwill attaches to a name or mark as it relates to the reputation or association with the goods or services provided by the owner of the mark”.<sup>[8]</sup> Though the plaintiff tendered evidence that it had retained franchise lawyers and a marketing firm to develop the franchise, and that it had discussions with various suppliers and landlords, the Divisional Court correctly observed that these interactions were all about it obtaining services or goods in connection with starting up its franchise business. The Divisional Court concluded that these start-up activities do not constitute goodwill as that concept is recognized in the case law.<sup>[9]</sup>

Significantly, the Divisional Court recognized that goodwill in the Bombay Frankies name could exist from the perspective of potential franchisees (as opposed to customers or the general public). However, it noted that the plaintiff adduced no evidence from the perspective of potential franchisees that could support a finding that the plaintiff had developed goodwill in that name as a franchising business. Given the absence of any evidence of goodwill, the Divisional Court held that the plaintiff’s passing-off claim also does not raise a serious issue to be tried.<sup>[10]</sup>

### **No Irreparable Harm**

The Divisional Court went on to find that the motion judge made a palpable and overriding error in concluding

that the plaintiff would suffer irreparable harm if no injunction was granted.

Citing prior case law, the Divisional Court confirmed that loss of goodwill and resulting irreparable harm cannot be inferred, but must be established by clear and convincing evidence.<sup>[11]</sup> The motion judge found the plaintiff had established irreparable harm because it tendered evidence that some landlords have questioned whether it is affiliated with the term Bombay Frankie and are hesitant to lease space to it as a result. The motion judge accepted that this would affect any goodwill developed by the plaintiff and that the potential exists for the defendants to appropriate such goodwill.

The Divisional Court, however, ruled that this finding does not constitute clear, non-speculative evidence of irreparable harm that cannot be compensated for by an award of damages. If a landlord refuses to rent space to the plaintiff, such harm is quantifiable. Alternatively, if the defendants secure a location because a landlord rents space to them on the mistaken belief they are the plaintiff, that too can be quantified.<sup>[12]</sup>

Moreover, the Divisional Court observed that any confusion among prospective landlords (which it regarded as speculative hearsay) does not constitute confusion among customers or the public resulting in a loss of goodwill. The cause of action for passing-off protects existing goodwill, not prospective goodwill. As the Divisional Court observed, to demonstrate irreparable harm, the plaintiff “had to show that it had goodwill in the Bombay Frankie name and that it would lose its goodwill because of the defendants’ confusing use”.<sup>[13]</sup> The plaintiff failed to do so.

Accordingly, the Divisional Court allowed the appeal and vacated the interlocutory injunction. The case will now proceed to trial where one of the issues will be who prevails in a passing-off action when one party is the first to file a trademark application, and the other is the first to use a similar mark.<sup>[14]</sup>

## Key Takeaways

### 1. The Divisional Court ruling restores established principles – goodwill cannot exist absent use or registration.

The motion court’s ruling in *Bhagwani* constituted a marked departure from “first use” principles. It allowed an applicant for a registered trademark to obtain an interlocutory injunction preventing another from using a similar mark, even though the applicant had never used the mark in a trademark sense. In doing so, it recognized enforceable rights (where no such rights had existed in the case law previously) based on the mere filing of a trademark application absent actual use of the mark. As the Divisional Court put it, “...absent a registered trademark or goodwill there is no basis to support a finding that the [plaintiff] was entitled to first mover advantage when they were not “using” the Bombay Frankie’s name to sell goods or services.”<sup>[15]</sup>

### 2. Franchisors take note – you may be able to establish goodwill by tendering evidence from



### prospective franchisees

As noted above, the Divisional Court recognized that, given the plaintiff's franchising business (the plaintiff anticipated opening six Bombay Frankies restaurants in 2022), goodwill in the Bombay Frankies name could theoretically exist from the perspective of potential franchisees, as opposed to customers of such restaurants or the general public. Had the plaintiff adduced evidence that it had developed goodwill in the Bombay Frankies mark as a franchising business, the Divisional Court may have been inclined to find that its passing-off claim raised a serious issue to be tried.

Accordingly, franchisors who have applied for a trademark registration and who have yet to begin operating franchises under that mark should consider whether they can establish goodwill (in other words, a positive association that attracts those in the marketplace to its services rather than those of its competitors) from the perspective of their potential franchisees. Had the plaintiff done so in *Bhagwani*, the Divisional Court could have ruled that its passing-off claim survives the serious issue to be tried element of the interlocutory injunction test.

### 3. Irreparable harm remains a high bar

Interlocutory injunctions are rarely granted in passing-off and trademark cases, largely because the irreparable harm element of the test is difficult to establish. In most cases it can be argued that any harm to the moving party can be readily quantified and compensated for with a damages award. The motion court's decision in *Bhagwani* on irreparable harm relaxed the traditional approach, as it did not require evidence that harm would actually occur and instead inferred that such harm would result on the basis of the first-mover advantage seized by the defendants. In other words, the motion court's decision stands for the proposition that possible harm to the potential future goodwill of the trademark being applied for cannot be quantified and is therefore irreparable.

The Divisional Court ruling restores the high bar required to get over the irreparable harm test for obtaining an interlocutory injunction. Citing to *Centre Ice Ltd. v. National Hockey League*,<sup>[16]</sup> the Divisional Court noted that "confusion does not, *per se*, result in a loss of goodwill and a loss of goodwill does not, *per se*, establish irreparable harm not compensable in damages". It went on to emphasize that loss of goodwill and irreparable harm cannot be inferred and must be established by clear, non-speculative evidence.<sup>[17]</sup>

[1] [2022] O.J. No. 778, decision released on November 2, 2022.

[2] A "frankie" is a type of Indian street food consisting of various fillings contained in a wrap.

[3] [1994] 1 S.C.R. 311.

[4] *Bhagwani*, at paras. 14 - 16.

[5] *Bhagwani*, at para. 18.

[6] *Bhagwani*, at paras. 19 - 21.

[7] *Bhagwani*, at para. 22.

[8] *Bhagwani*, at paras. 25 - 27.

[9] *Bhagwani*, at para. 27.

[10] *Bhagwani*, at para. 29.

[11] *Bhagwani*, at para. 32.

[12] *Bhagwani*, at para. 35.

[13] *Bhagwani*, at para. 35.

[14] Another issue will be whether the terms “Bombay Frankie” or “Bombay Frankies” are descriptive of East Indian food products and not capable of conveying exclusivity rights.

[15] *Bhagwani*, at para. 36.

[16] [1994] F.C.J. No. 68 (C.A.).

[17] *Bhagwani*, at paras. 32 - 34.

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#### **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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