REGAINING YOUR TRADEMARK
AFTER ABANDONMENT OR MISAPPROPRIATION

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REGAINING YOUR TRADEMARK AFTER ABANDONMENT OR MISAPPROPRIATION

The ever-expanding nature of franchising leads to unique challenges for protecting and enforcing a franchisor's valuable trademarks. When seeking to expand to new geographic areas, both domestically and abroad, franchisors may have the unsettling experience of finding their trademarks already registered or in use by someone else. Other times a franchisor may reenter a country after a period of absence only to find that its trademark registrations have been cancelled or that the marks have been registered, or are in use, by a third party. Although the relevant legal issues will vary with the facts of each scenario, this paper will explore practical problems, and solutions, in seeking to establish and/or recover trademark rights with a focus on the United States and Canada.

I. EXPANDING INTO NEW GEOGRAPHIC AREAS OF THE UNITED STATES AND CANADA

To explore the challenges associated with domestic geographic expansion of a franchise, consider a fast-food franchise that has operated for years throughout the east coast of the United States. If the franchisor now wishes to franchise its concept in California and throughout the west coast, what rights does it have in this area and what issues might arise?

As an initial matter, it is important to note that even if the franchisor has used its marks in certain areas of the United States or Canada without incident, this does not necessarily mean that the franchisor can expand into a new geographic area without encountering a conflict. There may be (1) individuals or companies that have used or registered a mark identical or confusingly similar to the franchisor's mark before the franchisor initiated use anywhere ("senior users"), or (2) individuals or companies that have used or registered a mark identical or confusingly similar to the franchisor's mark after the franchisor initiated use anywhere ("junior users"). The effects of senior and junior users on a franchisor's rights to its mark depend on many factors that are explored in further detail below. In any situation, however, the more information the franchisor gathers before initiating expansion into a new geographic area, the more flexibility it will have in addressing potential issues, including avoiding encroachment on another's superior trademark rights, and protecting its franchise from disruptive, expensive and potentially embarrassing litigation.

A. Do Your Homework

Before committing to an expansion, the franchisor should always investigate thoroughly the new geographic area for any evidence of a potential conflict of trademark rights. In the United States, this should begin with a commercial trademark search obtained through a reliable legal advisor or commercial search vendor, and be supplemented with searches using web-based search engines such as Google or Yahoo, as well as white and yellow pages telephone directory searches. In Canada, the franchisor should also conduct federal and provincial

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1 The authors wish to thank Janet Chong at Osler, Hoskin & Harcourt and Lauren Sullins Rails at Kilpatrick Townsend & Stockton LLP for their assistance in the preparation of the paper.

2 Reliable commercial search companies include Thomson Compumark and Corsearch, which can provide searches of federal and state trademark records, as well as business name records, domain name registrations, websites, and other databases, for arguably similar marks. See http://compumark.thomson.com and https://www.ctcorsearch.com.
corporate and business name registration searches. The costs of such searches are relatively low, especially in comparison to the costs of potential litigation.

What if the search discloses the existence of a third party that is already using an identical or confusingly similar trademark in association with similar products and/or services in the new geographic area where the franchisor has not previously operated? Before taking any action, it is essential to determine which party has priority. The concept of priority determines the parties' respective rights based on their use or registration of their marks, and ultimately provides the answer as to whether a franchisor has superior rights that enable it to expand into a new territory, or has inferior rights that could subject the franchisor to potential liability if it expands into a new territory. In order to assess priority, the franchisor should first conduct an investigation to determine (1) when and where the trademark was first used by the third party; (2) the goods and/or services with which the trademark is used by the third party; and (3) the extent of use by the third party (number of locations, geographic scope of use and promotion of the trademark). Helpful tools to uncover this information, which information can then be used to determine the appropriate action, are online search engines such as Google, online secretary of state records, Dun & Bradstreet searches, and telephone directories. If additional information is still needed, the franchisor may consider hiring a professional investigator to investigate the third party user and make anonymous inquiries.³

It is essential that, in any event, the franchisor does not violate “Trademark Litigation Rule No. 1”: i.e., never send a cease-and-desist letter unless you are certain you have priority. If the franchisor sends a cease-and-desist letter to the third party user, and the latter establishes its priority in the mark at issue, this opens the franchisor up to a losing lawsuit, and possibly, other issues including a disclosure obligation in Item 13 of its Franchise Disclosure Document.⁴ Indeed, a franchisor's ill-conceived challenge to a third party's rights may prompt the third party to initiate its own lawsuit, including a challenge to the franchisor's right to obtain or maintain a federal registration for its mark. A successful challenge to the franchisor's trademark registration could significantly hamper the franchisor's future expansion plans and

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⁴ In the United States, the franchisor must disclose, inter alia, any pending litigation relating to its principal trademarks as well as any third party prior rights of which the franchisor is aware. In Canada, a franchisor's disclosure obligations with respect to trademarks are governed by provincial legislation. There are currently four provincial statutes in force in Canada: the Alberta Franchises Act, R.S.A. 2000, c. F-23; the Ontario Arthur Wishart Act (Franchise Disclosure), 2000, S.O. 2000, c. 3; the Prince Edward Island Franchises Act, R.S. P.E.I. 1988, c. F-14-1; and the New Brunswick Franchises Act, S.N.B. 2007, c. F-23-5. Under the Ontario, PEI and New Brunswick legislation, a franchisor must provide a description of its rights to trademarks, service marks, trade names, logo or advertising or other commercial symbol associated with the franchise. A franchisor does not have to have applied to register or have registered its trademarks when offering the franchise. However, if the trademarks are not so protected, this should be disclosed as a material fact. Alberta has no requirements with respect to trademarks. Nevertheless, such information should be disclosed as a material fact. Only New Brunswick expressly requires a franchisor to disclose any known or alleged material impediments to the use of its trademarks. However, under the Alberta, Ontario and PEI statutes, a franchisor must provide this information if it can be regarded as a material fact or civil or administrative action. If applicable, the franchisor should clearly set out the possibility that it may not acquire registrations of its trademarks in Canada or may have its registrations cancelled or expunged. The franchisor should also consider describing what action it may take in the event that either of these situations occurs. In addition to ascertaining any such impediments to use of its trademarks in Canada, a franchisor should review any U.S. impediments on a case-by-case basis to determine their materiality and potential effect on the Canadian franchise system.
raise significant questions about the legitimacy of the use of the franchisor's mark in connection with its existing locations.

A franchisor's careful and thorough assessment of the issue of priority, therefore, is an essential prerequisite prior to challenging a third party's use of a similar mark for or in association with a similar business in a new geographic area. The assessment of priority can be factually intensive and, as discussed below, may be affected by a number of factors, including the franchisor's or third party's ownership of trademark registrations as well as other factors. This paper provides general guidelines and best practices regarding geographic expansion and priority in the more common scenarios. In dealing with any particular factual scenario, however, consulting with knowledgeable legal counsel before taking any action against a third party is strongly recommended.

B. Scenario One – Franchisor's Trademark is Being Used by a Third Party (Neither Party has a Registration for the Trademark)

1. U.S. Perspective

If neither party has a U.S. federal registration for its mark, in the United States, priority will be determined by the parties' respective common law rights. As a general rule, each party has rights to its mark in the geographic area in which it operates. Accordingly, multiple users of similar marks for similar products or services may conceivably acquire independent common law trademark rights in separate geographic markets of the United States regardless of who first used the trademark in trade or commerce anywhere. Therefore, a third party who has been using a similar mark in association with a similar business as the franchisor may acquire rights superior to the franchisor in its own geographic area. This is true even if the third party's adoption and use of its trademark occurred after that of the franchisor, so long as the third party's adoption was both in a new geographic area and in good faith (i.e. not done with knowledge of the franchisor's operations). Problems generally arise when one party expands into the other's geographic area or both parties seek to expand into the same "new" geographic

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5 Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916) ("[W]here two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant, unless it appears that the second adopter has selected the mark with some design inimical to the interests of the first user"); United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918) ("Tea Rose Rectanus") (affirming an innocent remote junior user's right to continue using a mark in its own geographic area, and holding that plaintiff, "being the newcomer in [the Louisville] market, must enter it subject to whatever rights had previously been acquired there in good faith by [defendant]"). This "Tea Rose-Rectanus" common law rule has been followed by most courts. See, e.g., Spartan Food Sys., Inc. v. HFS Corp., 813 F.2d 1279 (4th Cir. 1987) ("Although Hanover Milling and United Drug were decided before passage of the Lanham Act, their common law exposition of trademark rights applies today."); Allen Homes, Inc. v. Weersing, 510 F.2d 360 (8th Cir. 1975) (FOUR SEASONS for mobile homes) (holding that Elk River, having entered the midwestern states to market its mobile homes without prior knowledge of Allen Homes' use of the mark on mobile homes in the northwestern states, was not liable to Allen Homes for trademark infringement); Value House v. Phillips Mercantile Co., 523 F.2d 424, 431 (10th Cir. 1975) (VALUE HOUSE for general merchandise business) (despite plaintiff's prior appropriation, defendant's good faith adoption and use of the mark in a remote area preclude relief); Accu Personnel, Inc. v. Accustaff, Inc., 846 F Supp 1191, 1213 (D. Del. 1994) (ACCU for personnel services) (upholding the Tea Rose-Rectanus doctrine where junior user's use was remote and in good faith).

6 Tally-Ho, Inc. v. Coast Cnty. Coll. Dist., 889 F.2d 1018, 1023 (11th Cir. 1989) ("The first to use a mark on a product or service in a particular geographic market, the senior user, acquires rights in the mark in that market . . . . The senior user . . . may enjoin such uses that infringe upon its prior rights.")
area. In such situations, the parties may consider court intervention, an administrative proceeding, or a combination of both to clarify each parties’ rights.

Under common law, if the franchisor attempts to expand its operations into a third party’s business area, that third party may take action against the franchisor seeking to enjoin the franchisor from expanding into that area under a mark that is confusingly similar to that of the third party. On the other hand, the third party would not be able to expand its business using a confusingly similar mark into the geographic area in which the franchisor’s system operates. As to new areas where neither party currently operates, the courts look to the user’s “zone of protection” to determine who is entitled to use the trademark in the area. Elements considered by the courts to determine the actual zone of protection include: (1) the party’s market penetration area (i.e. the geographic area in which goods or services under the trademark have been sold, generally including where the party’s consumers are located); (2) the party’s reputation area (i.e. the area in which the party is known); and (3) the area of natural (probable) expansion. These are highly factual determinations and there is no “bright line” legal standard. Instead, courts weigh a variety of factors in assessing these three elements, including (1) the volume of sales made by the party; (2) the growth trends (both positive and negative) in the area; (3) the number of persons actually purchasing the product or service in relation to the potential number of customers; and (4) the amount of advertising conducted in the area.\(^7\)

In addition, the zone of protection may extend beyond the area of actual sales and customer residences if the trademark’s reputation has been carried by word of mouth and/or by advertisements outside this area. If the consumer class is highly ambulatory (such as those for hotel, motel and restaurant services) or if extensive advertising (or even mail order deliveries) has occurred outside the actual area in which sales occur, courts may find that a party’s reputation has been extended for miles, nationwide, or even internationally.\(^8\) Accordingly, the

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\(^7\) Natural Footwear, Ltd. v. Hart, Schaffner & Marx, 760 F.2d 1383, 1398-99 (3d Cir. 1985) (senior user found to have established no rights in its mark outside of New Jersey) see also Sweetarts v. Sunline, Inc., 380 F.2d 923, 929 (8th Cir. 1967), later appealed, 436 F.2d 705 (6th Cir. 1971) (SWEETARTS for candy) ("though the market penetration need not be large to entitle plaintiff to protection . . . it must be significant enough to pose the real likelihood of confusion among the consumers in that area between the products of plaintiff and the products of defendants"); Charles Jacquin Et Cie, Inc. v. Destillerie Serralles, Inc., 921 F.2d 467 (3d Cir. 1990) (BOTTLE DESIGN trade dress for alcoholic beverages) ("Whether a volume of sales is significant will vary with the product and the market. The numbers that result in injunctive relief in one case may not be significant in another"); on remand, 784 F. Supp. 231 (E.D. Pa. 1992) (extending injunction to West Virginia but not the other eight states beyond Pennsylvania sought by plaintiff, because plaintiff “has failed to make a showing, under the four-part Natural Footwear test, to merit protection of its trade dress in those states"); WNS, Inc. v. Deck The Walls, Inc., 4 U.S.P.Q.2d 1377, 1380 (N.D. Ill. 1987) (de minimis use in a given area does not give rise to trademark rights in that area); Pedi-Care, Inc. v. Pedi-A-Care Nursing, Inc., 656 F. Supp. 449 (D.C. N.J. 1987) (market penetration sufficient where senior user based in Philadelphia, providing in-home pediatric health care services, established a zone of sales, reputation, and expansion in disputed area of New Jersey, despite the fact that senior user did not intend to open a facility in New Jersey); Accu Personnel, Inc., 846 F. Supp. at 1213 (citing the Natural Footwear factors); Minuteman Press Int’l, Inc., 219 U.S.P.Q. at 430 (senior user based in San Francisco could not establish sufficient market penetration outside of San Francisco Bay Area to obtain rights beyond that region). See generally 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, §§ 26:13, 26:14, at 26-19 to 26-23 (4th ed. 2009) (hereinafter MCCARTHY).

\(^8\) See, e.g., Dunkin’ Donuts v. Mercantile Ventures, Inc., 22 U.S.P.Q.2d 1721, 1728 (W.D. Tex. 1992), aff’d in part, 19 F.3d 14 (5th Cir. 1994) (because Mazatlan, Mexico is a popular tourist location for U.S. citizens, it is within the reputation zone of a donut franchise that operates throughout the U.S. and in some other countries, but has no stores in Mexico); Humble Oil & Refining Co. v. Am. Oil Co., 405 F.2d 803 (8th Cir. 1969) (the motoring public thinks nationally and is mobile); Continental Motors Corp. v. Continental Aviation Corp., 375 F.2d 857 (5th Cir. 1967) (noting “the restless, undulating habits of our air-minded, air-traveling public, many of whom for sport, or pleasure, or business, or an aeronautical combination of them, hop across the nation”); Tisch Hotels, Inc. v. Americana Inn, Inc., 350 F.2d 609, 613 (7th Cir. 1965)
national or regional nature of many franchise systems may provide franchisors with a larger zone of protection than where their physical operations are located.

Even if the junior user was concededly first to use its mark in a geographic market (where the senior user can show neither market penetration nor reputation awareness by a substantial number of persons), the senior user may nevertheless prevail if it can demonstrate adequately that the market in dispute is within its "area of natural expansion." Although most courts generally recognize the concept of providing room for growth, the application of the doctrine of natural expansion, in practice, usually has been limited to senior users who have demonstrated a dynamic growth history or have taken affirmative concrete steps clearly evidencing an intent to expand, including negotiations, marketing surveys, and advertising. In addition, in most cases, when the junior user adopts a mark in good faith with no intent to block the senior user's probable expansion, courts have defined the senior user's area of natural expansion narrowly, or have declined to include the junior user's area as an area of natural expansion within the senior user's zone of protection. In contrast, if the senior user is static

(AMERICANA for hotel services) (noting that by the very nature of defendants' hotel business, they are seeking to attract the travelling public and that their advertising reaches far beyond their immediate trade area); Lincoln Rest. Corp. v. Wolfles Rest., Inc., 291 F.2d 302 (2d Cir. 1961); Huber Baking Co. v. Stroehmann Bros. Co., 252 F.2d 945, 955 (2d Cir. 1958); Ambassador East, Inc. v. Orsatti, Inc., 257 F.2d 79 (3d Cir. 1958); Stork Rest., Inc. v. Sahati, 166 F.2d 348 (9th Cir. 1948) (THE STORK CLUB for restaurant services) (focusing on the "continued, expensive, and spectacular advertising" of the senior user, the court held that the junior user was "seeking to capitalize on the publicity" even though in a physically remote area); CTC Intl', Inc. v. Hero Cycles Private, Ltd., 26 U.S.P.Q.2d 1309 (C.D. Cal. 1992) (HERO for bicycles and components) (foreign manufacturer obtained priority in this country based on offers of sale, advertising, and trade show appearances in this country resulting in domestic reputation). As a practical matter, evidence of likelihood of confusion may include catalog orders, credit card receipts from restaurants and hotels, and airline ticketing information. For instance, in cases involving geographically remote restaurants, credit card information from one restaurant may reveal significant clientele visiting from the geographically remote city. This information could be used to prove exposure and, perhaps, serve as a basis for a confusion survey.

9 See, e.g., Food Fair Stores, Inc. v. Lakeland Grocery Corp., 301 F.2d 156 (4th Cir. 1962). See also Tally-Ho, Inc., 889 F.2d at 1028 (criteria for defining "zone of expansion"); Dunkin' Donuts v. Mercantile Ventures, Inc., 22 U.S.P.Q.2d 1721, 1725 (W.D. Tex. 1992), aff'd in part, 19 F.3d 14 (5th Cir. 1994) (the court implied that Mazatlan, Mexico is within the zone of expansion of a franchise operation having over 1,800 donut shops in the United States and over 536 in other countries, but none in Mexico); Value House, 523 F.2d at 431 ("Protection under common law principles has ... been extended beyond the prior user's actual goodwill zone to the area of his natural or probable expansion."); Major League Baseball Props., Inc. v. Sed Non Olet Denarius, Ltd., 817 F. Supp. 1103, 1133 (S.D.N.Y. 1993) (BROOKLYN DODGERS for restaurant and bar services) (denying relief because "[p]laintiffs have not in any way demonstrated that the restaurant business in Brooklyn is a market into which they might naturally expand"). For a general discussion of the problems in determining a company's zone of natural expansion, see Union Nat'l Bank of Tex., Laredo, Tex. v. Union Nat'l Bank of Tex., Austin, Tex., 909 F.2d 839, 843 n.9 (5th Cir. 1990). See generally 3 R. Callman, THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLES, § 19.21, at 94-101 (4th ed. 2011).

10 See, e.g., Food Fair Stores, Inc., 301 F.2d at 162 (applying doctrine where "[t]he size and rate of expansion of the plaintiff's business at the time, the proximity and location of its existing stores ..., the negotiation for a chain of stores in [the area] in 1955, the effort to buy out the defendant in 1956, and the actual opening of the plaintiff's store in 1958 give strong support to the testimony of the plaintiff that ... expansion of the business into the area was not merely possible but probable"); Magic Pan, Inc. v. The Magic Pan, Inc., 185 U.S.P.Q. 528 (S.D. Ind. 1975) (MAGIC PAN for restaurant services) (plaintiff had already begun negotiations for a lease of space to operate a restaurant in Indiana City); Southland Corp. v. Schubert, 297 F. Supp. 477 (C.D. Cal. 1968) (7-ELEVEN for convenient store services) (emphasizing the great number, and rapid expansion, of 7-Eleven stores).

11 See, e.g., Tally-Ho, Inc., 889 F.2d at 1028 (the doctrine has been narrowly defined and is usually rejected on the facts); Paxton Corp. v. Anania Assoc's., Inc., 635 F.2d 924, 930-31 (1st Cir. 1980) (rejecting "area of natural expansion" doctrine); Shoppers Fair of Ark., Inc. v. Sanders Co., 328 F.2d 496, 140 U.S.P.Q. 637 (8th Cir. 1964) (SHOPPERS FAIR for discount department stores) (the natural expansion doctrine would not apply in the absence of bad faith by the junior user); Food Fair Stores, Inc. v. Square Deal Market Co., Inc., 206 F.2d 432, 98 U.S.P.Q. 65 (D.C. Cir. 1953); Katz Drug
(i.e., it has operated in essentially the same geographic area for an extensive period of time) and the junior user is dynamic, a court may find that the junior user has lawfully acquired, through good faith expansion, nationwide trademark rights except for the small area first occupied by the senior user. Moreover, if the senior user's trade area contracts after the junior user begins using the mark, the senior user's market area at the time of trial may be treated as the relevant zone of protection.

2. Canadian Perspective

In comparison with the United States, the determination of a party's right to use an unregistered trademark in any given geographical area in Canada is fairly straightforward. In Canada, rights to a trademark are acquired through use. As a general rule, the first user in the geographical area is the party entitled to use the trademark.

Unregistered trademarks are protected by common law only, and such protection is restricted to geographical area(s) within which the trademark has acquired reputation (i.e. within

Co. v. Katz, 188 F.2d 696, 89 U.S.P.Q. 303 (8th Cir. 1951); Lerner Stores Corp. v. Lemer, 162 F.2d 160 (9th Cir. 1949) (LERNER for retail women's apparel stores) (the area of protection of a mark that is the name of an establishment will be more limited, and if the allegedly infringing establishment is not operating in the same territory, no unfair competition exists); Gen. Baking Co. v. Goldblatt Bros., 90 F.2d 241 (7th Cir. 1937); beef & brew, inc. v. Beef & Brew, Inc., 389 F. Supp. 179, 185-86 (D. Or. 1974) (BEEF & BREW for restaurant services) ("[a]s may be seen by close examination of the leading zone of expansion cases, each rests upon a finding of secondary meaning or bad faith, or both"); Blue Ribbon Feed Co. v. Farmers Union Cent. Exch., Inc., 731 F.2d 415, 422 (7th Cir. 1984) (BLUE RIBBON for animal feed and other agricultural products) ("mere hope of expansion" is not sufficient); Accu Personnel, Inc., 846 F. Supp. at 1213 ("mere hope of expansion" is not enough); Burger King of Florida, Inc. v. Brewer, 244 F. Supp. 293 (N.D. Tenn. 1965); see also Spartan Food Sys., Inc., 813 F.2d at 1283 (QUINCY'S for restaurant services) (assuming that natural expansion will occur in areas geographically contiguous to the user's present trade area, the court cited "dominance of contiguous areas" as a factor in determining the zone of natural expansion); Genny's Diner & Pub. Inc. v. Sweet Daddy's Inc., 812 F. Supp. 744 (W.D. Ky. 1993) (the common law would not favor a remote user's unregistered interest in non-imminent future expansion against a subsequent user's actual, albeit on notice, expansion).  

12 Tally-Ho, Inc., 889 F.2d at 1028 (YOU AND THE LAW for educational telecourses) (static senior user whose mark was used at three community colleges in Florida did not have a zone of expansion that included Dade County, Florida); Blue Ribbon Feed Co., 731 F.2d at 422 (limiting a senior user's zone of protection to the twenty-mile radius of its sales for thirty-three years from a single store); Weiner King, Inc. v. Wiener King Corp., 201 U.S.P.Q. 894, 910 (T.T.A.B. 1979), aff'd on point, 615 F.2d 512, 204 U.S.P.Q. 820 (CCPA 1980) (it has been "recognized at common law that rights of a prior user in the market, per se, or in territorial boundaries or in the right to expand its use may, under certain facts, be lost to a good faith second user who has embarked on a vigorous expansion program under the mark"); Jacobs v. Iodent Chem. Co., 41 F.2d 637, 640 (3d Cir. 1930) (IODENT for toothpaste) ("where, as here, one, owning a valid trademark and entitled to a given territory, fails by efforts which are reasonable in time and extent to project his business and the accompanying mark in that territory, he cannot by reason of the mere fact of ownership preempt the territory forever"); Accu Personnel, Inc. v. Accustaff, Inc., 846 F. Supp. 1191, 1209 (D. Del. 1994) (["]f the senior user is static, and has restricted use to only one small area, ... a good-faith junior user may expand into a nationwide user of the mark, subject only to an exception in the small area occupied by the senior user.") (quoting 2 McCarthy § 26.08[2] at 26–32). See generally 4 McCarthy § 26.21.

13 Youthform Co. v. R.H. Macy & Co., 153 F. Supp. 87, 114 U.S.P.Q. 62 (N.D. Ga. 1957) (YOUthFORM for lingerie) (even though senior user had originally conducted mail order business in practically every state and had engaged in some national advertising, where sales activities had subsequently contracted to 13 states, court refused to enjoin use of infringing mark by another manufacturer outside that 13 state area). See also Taffy Original Designs, Inc. v. Taffy's, Inc., 161 U.S.P.Q. 707 (N.D. Ill. 1966) (plaintiff's trade area had shrunk such that plaintiff had made no sales in defendant's area for six years).

which the public has knowledge of the trademark). Therefore it is possible for an unregistered trademark to be distinctive of one user in one part of Canada and another user in another part of Canada.

As disputes arising from two parties competing to expand their operations into a new geographical area in Canada using very similar unregistered trademarks do not occur often, there is practically no case law in this regard. However, based on the principle that reputation is key to the determination of the right to use an unregistered trademark, the party that acquires reputation in its trademark in the new geographical area first will be entitled to use its trademark in that area.\textsuperscript{15}

Common law trademark rights can be enforced by way of an action based on the tort of passing-off. To succeed in a claim for passing-off in Canada, a plaintiff must establish three main elements: (1) there is a reputation in its trade indicia (e.g. a trademark, trade name, symbol, logo, get-up or other devices) which indicates to the public that the wares or services sold in association with that indicia originate from or are associated with the plaintiff; (2) misrepresentation on the part of the defendant which creates or is likely to create confusion to the public as to the source of such wares or services; and (3) such misrepresentation has resulted in or is likely to result in damage.\textsuperscript{16}

The Canadian \textit{Trade-marks Act}\textsuperscript{17} (the "CTMA") also provides a cause of action for passing-off. Section 7(b) is the statutory codification of the common law tort of passing-off, with the exception that for this provision to apply, the claimant must show that it has a valid and enforceable trademark, whether registered or unregistered, through use.\textsuperscript{16}

7. \textbf{Prohibitions} – No person shall

(b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another; ...

Therefore a wronged franchisor can rely on a cause of action for passing-off at both common law and under the CTMA.

\textsuperscript{15} See, e.g., \textit{Bow City Delivery Ltd. v. Independent Cab Co.} (1972), 10 C.P.R. (2d) 51 (A.B.S.C.) in which the Court cited cases that required the establishment of business reputation for a passing-off claim and in which the plaintiff, having adopted its trade name only shortly before the defendant, was not entitled to exclusive use of the name. However, the Court distinguished the present case from these cases on the fact that the defendant had a previous relationship with the plaintiff and deliberately proceeded to carry on business under the same name with an intention to usurp some of the plaintiff’s business and to give the plaintiff a rough time.


\textsuperscript{17} R.S.C., 1985, c. T-13, as amended.

C. Scenario Two – Franchisor’s Trademark is Applied for or Registered by a Third Party

If a U.S. federal trademark registration is involved, the assessment of relative priority may be significantly different. For registration applications filed on or after November 16, 1989, a U.S. registration acts as constructive notice that the mark is in use nationwide as of the filing date of the application (the “nationwide priority date”). For example, if a registrant files a federal trademark application on June 1, 2009 and the application proceeds to registration on June 30, 2010, the registrant has a nationwide priority date of June 1, 2009, and the federal registration provides the registrant with nationwide priority over any third party uses of confusingly similar marks that begin after that date. However, neither an application for nor a registration of a mark at the federal level erases the prior non-registered, common law rights of others.19

In Canada, trademark registrations do not presume a date of first use. Registration itself does not confer priority of title to the trademark,20 it merely serves to “perfect” the registrant’s common law trademark rights that have been acquired through use and confirm the registrant’s title.21 Registration also provides additional and exclusive rights to the registrant that are not available from mere use, and gives public notice that the registrant’s use of the mark is protected nationwide as of the date of registration. Date of first use and priority of title to a trademark are at all times questions of fact to be established by evidence.

If the third party junior user has applied for, or has obtained, a registration for the franchisor’s mark, the franchisor may seek relief through a court proceeding, an administrative proceeding, or a combination of both. In any scenario, it is essential that the franchisor coordinate its own registration strategy (and review any potential weaknesses in its own portfolio) before moving forward.

1. U.S. Perspective

If the third party federal registrant is, in fact, the junior user of the mark, the franchisor that is a senior user but does not have a registration may, for example, attempt to invalidate the registration (1) in a cancellation proceeding in the Patent and Trademark Office (the “PTO”) under Section 14 of the Lanham Act,22 (2) in a court by a declaratory judgment action seeking to enjoin the third party’s use of the registered mark and to cancel the registration, or (3) by way of a defense and/or counterclaim where the third party has sued the franchisor for infringement. On the other hand, the franchisor may elect to have the registration restricted, rather than invalidated entirely, by filing its own application for a concurrent use registration under Section 2(d) of the Lanham Act, resulting in a concurrent use proceeding.23

19 Johnny Blastoff, Inc. v. Los Angeles Rams Football Co., 188 F.3d 427, 51 U.S.P.Q.2d 1920, 1925 (7th Cir. 1999), cert. denied, 528 U.S. 1188, 120 S. Ct. 1241, 146 L. Ed. 2d 100 (2000) ("[A] trademark application is always subject to previously established common trademark rights of another party.").


23 See McCarthy § 20.81; T.M.R.P. § 2.99.
Cancellation petitions are governed by Section 14 of the Lanham Act,\textsuperscript{24} which forecloses an attack based upon the petitioner’s ownership of a previously registered mark if the petition is not made within five years from the date of registration. Thereafter, unless the senior user can establish that such registration was obtained fraudulently, prior use is forever barred as a ground for cancellation.\textsuperscript{25} It is unsafe to delay for any lengthy period even within the first five years, however, since registration (and the constructive notice afforded thereby) also has been held to bar cancellation petitions on the basis of laches.\textsuperscript{26}

Section 37 of the Lanham Act\textsuperscript{27} confers power on the courts in “any action involving a federal registration” to order cancellation or other rectification of PTO registers. Thus, when the senior or junior user has sued the other for infringement, or when a claim satisfying the controversy requirements for a declaratory judgment has been made, a federal district court may act to cancel or restrict the junior user’s federal registration based on principles of equity. If the registration is contestable, the provisions of Section 33(a) permit the senior user to attack (or defend) on the basis of “any legal or equitable defense or defect which might have been asserted if such mark had not been registered.”\textsuperscript{28} However, at the very least, the junior registrant would be entitled to retain rights that it would have acquired in good faith at common law.\textsuperscript{29}

If the junior user’s registration has become “incontestable,” the senior user may be frozen into the territory occupied on the date the registration issued.\textsuperscript{30} Nevertheless,

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\item \textsuperscript{24} 16 U.S.C. § 1064; see MCCARTHY 20:52 (noting that the grounds for cancellation of a registration less than five years old may be based upon any ground which would have prevented registration initially, including arguments that the mark is merely descriptive).
\item \textsuperscript{26} See, e.g., Clark & Freeman Corp. v. Heartland Co., 811 F. Supp. 137 (S.D.N.Y. 1993) (senior user’s delay in registering its mark made it appropriate to conclude that senior user’s request for equitable relief against registered trademark holders was barred by laches, such that court would not order cancellation of trademark registration); Sleepmaster Prods. Co. v. Am. Auto-Felt Corp., 104 U.S.P.Q. 35 (Comm’r Pats. 1954), aff’d, 241 F.2d 738 (C.C.P.A. 1957) (SLEEPMASTER for bedding materials). In contrast, however, when dealing with third-party use (not registration) of a similar mark, laches is less likely to arise even if the franchisor knew of the third-party use because the dispute must be “ripe” before action can be taken. See Section I.E.1 below (addressing requirement that the franchisor have concrete business plans to expand into the third-party area, or a zone of reputation expanding into that area, before having a cause of action).
\item \textsuperscript{27} 15 U.S.C. § 1119.
\item \textsuperscript{28} 15 U.S.C. § 1115.
\item \textsuperscript{29} See, e.g., Wiener King, Inc. v. Weiner King Corp., 615 F.2d 512 (C.C.P.A. 1980) (registered junior user with contestable registration, who followed an aggressive franchising scheme, was accorded nationwide rights, while the senior user, whose operation had remained local, was limited to its local trade area in one state). Compare Archil temps Inc. v. Archil temps Ltd., 11 U.S.P.Q.2d 1886 (S.D.N.Y. 1989) (holding that plaintiff, despite its status as a junior user with a contestable trademark registration, has superior rights to any area in which neither it nor non-registrant senior user has yet expanded).
\item \textsuperscript{30} 15 U.S.C. § 1065. See, e.g., 815 Tonawanda Street Corp. v. Fay’s Drug Co., 4 U.S.P.Q.2d 1306 (W.D.N.Y. 1987), rev’d on other grounds, 842 F.2d 643 (2d Cir. 1988) (FAY’S for retail drug store services) (under § 15, the extent of the senior user-nonregistrant’s territory is frozen as of the date of registration to the junior user-federal registrant); see also V. & V. Food Prods., Inc. v. Cacique Cheese Co., 683 F. Supp. 662 (N.D. Ill. 1988) (RANCHERO for cheese products).
\end{itemize}
incontestability does not occur “to the extent, if any, to which the use of a mark registered on the Principal Register infringes a valid right acquired under the law of any state or territory by use of a mark or trade name continuing from a date prior to the date of publication under this Act of such registered mark . . .” 31 Thus, if the senior user demonstrates its ownership of valid common law trademark rights that are established prior to the filing date of the registrant’s mark, it will be able to continue its use of the mark in that area.

As indicated above, among other things, franchisors have an obligation to disclose in Item 13 of the Franchise Disclosure Document “any currently effective material determinations” relating to “any impending infringement, opposition, or cancellation proceeding,” including those brought by the franchisor against third parties in order to protect its own marks. 32 Accordingly, franchisors must be certain to disclose any such cancellation or concurrent use proceedings involving their marks, or similar marks, in order to avoid a possible disclosure violation.

2. Canadian Perspective

Where an unaffiliated party has applied to register or has already registered a franchisor’s trademark, rights to the trademark are governed by the CTMA. The CTMA provides the franchisor two avenues by which to challenge such application or registration: (a) opposition and/or cancellation proceedings in the Trademarks Office; and (b) application for expungement in the Federal Court. 33

a. Proceedings in the Canadian Trademarks Office

i. Cancellation of Trademark Registration by the Registrar of Trademarks Based on Non-use

Cancellation proceedings in the Trademarks Office are intended to be summary in nature 34 and are designed to rid the trademark register of any trademark that is no longer in use. They are commonly referred to as “section 45 proceedings” in Canada, as Section 45 of the

(holding that the junior user-registrant is presumed to have exclusive rights throughout the United States, even in territories in which it is not trading, except for the territories of the senior user’s prior use); Noah’s, Inc. v. Nark, Inc., 560 F. Supp. 1253 (E.D. Mo. 1983), aff’d, 728 F.2d 410 (8th Cir. 1984) (NOAH’S ARK for restaurant services and food products) (finding that senior user-plaintiff had abandoned its rights to nationwide protection of the mark); Minuteman Press Int’l, Inc. v. Minute-Men Press, Inc., 219 U.S.P.Q. 426 (N.D. Cal. 1983) (holding that the non-registrant senior user may retain exclusive rights only in the area of its actual use and its zone of natural expansion).


32 16 C.F.R. 436.5(m)(5).

33 As discussed above, in the four Canadian provinces (Alberta, Ontario, PEI and New Brunswick) where there is currently franchise legislation, if a franchisor’s trademarks are not protected, this should be disclosed as a material fact. Further, any known or alleged material impediments to the franchisor’s use of its trademarks should also be disclosed as material facts (in New Brunswick, this is an express requirement). Any opposition and/or cancellation proceeding, or any expungement application, commenced by the franchisor should also be disclosed.

34 Anheuser-Busch, Inc. v. Carling O’Keefe Breweries of Canada Ltd. (1982), 69 C.P.R. (2d) 136 at 142 (F.C.A.) (‘Anheuser-Busch’).
CTMA confers on the Registrar of Trademarks (the "Registrar") the authority to cancel or amend a registration of a trademark for non-use.\textsuperscript{35}

Section 45 proceedings can be initiated after three years from the registration date at the request of anyone, including a franchisor. In practice, it is possible for a franchisor to front a law firm as the requesting party so as to shield the franchisor's own identity, along with its plan to expand its operation into the registrant's area(s) of business, from the registrant. In response to the request, the Registrar sends the registrant a notice requiring it to file evidence showing that the trademark has been used by the registrant in Canada in association with goods and/or services specified in the registration. Use in Canada which occurs anytime during the three-year period immediately before the date of the Registrar's notice can be relied upon by the registrant to maintain the registration. If the registrant does not or cannot furnish such evidence, or can only show that the trademark is used with some of the goods and/or services, and the absence of use cannot be explained by special circumstances, the Registrar will cancel the registration or amend the registration by deleting the goods or services in respect of which no use has been shown.

In these proceedings, the Trademarks Opposition Board\textsuperscript{36} (the "Board") determines whether the trademark at issue was in use during the relevant time period based on the registrant's evidence. The proceedings are not \textit{inter partes}, and the Board is not empowered to resolve substantive rights as between the registrant and the requesting party. As such, the issue of abandonment of the trademark cannot be dealt with,\textsuperscript{37} and issues such as ownership, distinctiveness and registrability are irrelevant. As well, even though the CTMA provides for an opportunity for the requesting party to file written representations or be heard at the oral hearing stage of the proceedings,\textsuperscript{38} there is no opportunity to cross-examine on the evidence filed, and the requesting party is not actually required to participate or even to demonstrate an interest in the trademark.

\textsuperscript{35} 45. (1) Registrar may request evidence of user – The Registrar may at any time and, at the written request made after three years from the date of the registration of a trade-mark by any person who pays the prescribed fee shall ... give notice to the registered owner of the trade-mark requiring the registered owner to furnish within three months an affidavit or a statutory declaration showing, with respect to each of the wares or services specified in the registration, whether the trade-mark was in use in Canada at any time during the three year period immediately preceding the date of the notice and, if not, the date when it was last so in use and the reason for the absence of such use since that date. ...  

(3) Effect of non-use – Where, by reason of the evidence furnished to the Registrar or the failure to furnish any evidence, it appears to the Registrar that a trade-mark, either with respect to all of the wares or services specified in the registration or with respect to any of those wares or services, was not used in Canada at any time during the three year period immediately preceding the date of the notice and that the absence of use has not been due to special circumstances that excuse the absence of use, the registration of the trade-mark is liable to be expunged or amended accordingly.

Further rules of procedure can be found in the Trade-marks Office Practice Notice, a copy of which can be obtained at http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopi.nsf/eng/wr01944.html.

\textsuperscript{36} A section of the Canadian Trademarks Office, the Trademarks Opposition Board is delegated by the Registrar of Trademarks to hear and decide opposition and cancellation cases.

\textsuperscript{37} \textit{Anheuser-Busch}, supra at 293.

\textsuperscript{38} Section 45(2) of the CTMA.
Section 45 proceedings may not be the friendliest avenue for franchisors to recover their trademarks for two reasons. Firstly, the threshold for the registrant to demonstrate use of the trademark within the relevant time period is rather low. Evidence of a single sale in the normal course of trade may be sufficient to establish such use under certain circumstances, as long as it follows the pattern of a genuine commercial transaction and was not manufactured to protect the trademark registration.\(^{39}\) Therefore a registrant of the franchisor's trademark can avoid losing its registration simply by using the trademark on a relatively modest basis in the normal course of trade. As a result of this low threshold, it is especially important for a franchisor to conduct a full investigation, including using private investigators, into the actual extent of use of the trademark by the registrant before filing a Section 45 notice request with the Registrar. Secondly, the registration will be maintained if the registrant has shown that exceptional circumstances exist to excuse the non-use of the trademark for some or all of the goods and/or services specified. For example, in *Xentel DM v. Office of the Commissioner of Baseball*,\(^{40}\) evidence showed that the trademark ALL-STAR GAME, registered for “entertainment services in the nature of the presentation and promotion of baseball games,” had not been used in Canada for eight years. Nonetheless, the Registrar maintained the registration because the registrant showed that the all-star game events were only held once a year, and their location rotated at the discretion of the Commissioner of Baseball among 30 clubs, only two of which were in Canada. Circumstances beyond the registrant's control that prevent the registrant from using the trademark are especially persuasive,\(^{41}\) while an absence of use due solely to a deliberate decision by the registrant would not be excused.\(^{42}\)

It should be noted that a registration that survives Section 45 scrutiny is not precluded from being challenged by the same party in the Federal Court by way of an expungement application,\(^{43}\) since non-use is only one of many grounds for impugning a registration in court.

### ii. Opposition of Pending Application to Register the Franchisor's Trademark

Applications to register a trademark in Canada can be filed on several bases. In the context of a franchisor's trademark having been misappropriated, the applicant most likely filed the application based on "actual use" or "proposed use" (the Canadian equivalent of *bona fide


\(^{41}\) *Canada (Registrar of Trade Marks) v. Harris Knitting Mills* (1985), 4. C.P.R. (3d) 488 (F.C.A.); *Ridout & Maybee v. A. Lassonde Inc.* (2003), 28 C.P.R. (4th) 559 (T.M.H.O.) – difficulties in finding distributors, suppliers or licensees without reasons for or steps taken to overcome such difficulties are not sufficient to support a finding of special circumstances; *Rogers, Bereskin & Par v. The Registrar of Trade Marks* (1987), 17 C.P.R. (3d) 197 (F.C.T.D.) – poor market conditions combined with renovations to the registrant's plant supported finding of special circumstances.

\(^{42}\) *Smart & Biggar v. Canada (Attorney General)*, 2006 FC 1542 (F.C.).

intention to use" in the U.S.) of the trademark. The filing basis dictates the relevant reference date for assessing each ground of opposition.44

When the application is advertised, the franchisor can oppose it under Section 38 of the CTMA, which provides:

38. (1) Statement of opposition – Within two months after the advertisement of an application for the registration of a trade-mark, any person may, on payment of the prescribed fee, file a statement of opposition with the Registrar.

(2) Grounds – A statement of opposition may be based on any of the following grounds:

(a) that the application does not conform to the requirements of Section 30;

(b) that the trade-mark is not registrable;

(c) that the applicant is not the person entitled to registration of the trade-mark; or

(d) that the trade-mark is not distinctive.

The most applicable grounds of opposition in the context of misappropriation of a franchisor’s trademark are those set out in Sections 38(2)(c) and (d) of the CTMA. Section 38(2)(c) references Section 16 of the CTMA, which speaks to an applicant’s entitlement to registration where the application is filed on the bases of “actual use” and “proposed use” respectively.45

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44 For applications filed on the basis of proposed use, the reference date is the filing date of the application; for applications filed on the basis of actual use, the reference date is the date of first use by the applicant (see Sections 16(1) and (3) of the CTMA below).

45 16. (1) Registration of marks used or made known in Canada – Any applicant who has filed an application in accordance with section 30 for registration of a trade-mark that is registrable and that he or his predecessor in title has used in Canada or made known in Canada in association with wares or services is entitled, subject to section 38, to secure its registration in respect of those wares or services, unless at the date on which he or his predecessor in title first so used it or made it known it was confusing with

(a) a trade-mark that had been previously used in Canada or made known in Canada by any other person;

(b) a trade-mark in respect of which an application for registration had been previously filed in Canada by any other person; or

(c) a trade-name that had been previously used in Canada by any other person.

(3) Proposed marks – Any applicant who has filed an application in accordance with section 30 for registration of a proposed trade-mark that is registrable is entitled, subject to sections 38 and 40, to secure its registration in respect of the wares or services specified in the application, unless at the date of filing of the application it was confusing with

(a) a trade-mark that had been previously used in Canada or made known in Canada by any other person;
Section 38(2)(d), on the other hand, refers to the trademark itself and provides that the application can be opposed if the trademark is not "distinctive." Distinctiveness of a trademark is defined in Section 2 of the CTMA as meaning "a trade-mark that actually distinguishes the wares or services in association with which it is used by its owner from the goods or services of others or is adapted so to distinguish them."

These provisions allow the franchisor to oppose the application by asserting that (1) the applicant is not entitled to register the trademark because, as a result of the franchisor having used its trademark prior to the applicant's use of the trademark or filing of the application, the applicant's trademark is confusing with the franchisor's trademark; and (2) the trademark should not be registered because, as a consequence of (1), the applicant's trademark is not distinctive, i.e. it does not distinguish the goods or services of the applicant from those of others, including the franchisor.

"Use" in association with goods and services respectively is defined in the CTMA. With respect to goods, the stringent definition of "use" under Section 4(1) of the CTMA has led to a finding that the display of the trademark on promotional items (such as pens and notepads) or on marketing items (such as display units, branding blocks, signs and window stickers) alone does not amount to use of the trademark if these items are not placed in sufficiently close proximity to the goods for sale such that sufficient notice of association between the goods and the trademark was created at the time of transfer.

(b) a trade-mark in respect of which an application for registration had been previously filed in Canada by any other person; or

(c) a trade-name that had been previously used in Canada by any other person.

46 Section 16(1)(a) of the CTMA.

47 Section 16(3)(a) of the CTMA.

48 2. Definitions – In this act, . . . "use", in relation to a trade-mark, means any use that by section 4 is deemed to be a use in association with wares or services;

4. (1) When deemed to be used – A trade-mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred.

(2) Idem – A trade-mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of those services.

(3) Use by export – A trade-mark that is marked in Canada on wares or on the packages in which they are contained is, when the wares are exported from Canada, deemed to be used in Canada in association with those wares.

On the other hand, with respect to services, in order for there to be trademark use under Section 4(2) of the CTMA, the services must be advertised and rendered in Canada, or at least the trademark owner must be offering and prepared to perform the services in Canada.\footnote{Marineland Inc. v. Marine Wonderland & Animal Park Ltd. (1974), 16 C.P.R. (2d) 97 (F.C.T.D.); Motel 6 Inc. v. No. 6 Motel Ltd. (1982), 56 C.P.R. (2d) 44 (F.C.T.D.).}

Not surprisingly, in order to assert prior use in the opposition, the franchisor must demonstrate that it has continuously used and has not abandoned its trademark on the filing date of the application or the claimed date of first use of the applicant's trademark, as the case may be. Use of the franchisor's trademark by a franchisee as an authorized licensee inures to the benefit of the franchisor under certain circumstances pursuant to Section 50 of the CTMA.\footnote{50. (1) License to use trade-mark — For the purposes of this Act, an entity is licensed by or with the authority of the owner of a trade-mark to use the trade-mark in a country and the owner has, under the license, direct or indirect control of the character or quality of the wares or services, then the use, advertisement or display of the trade-mark in that country is or in a trade-mark, trade-name or otherwise by that entity has, and is deemed always to have had, the same effect as such a use, advertisement or display of the trade-mark in that country by the owner.}

It should be noted that a franchisor who has unsuccessfully opposed the application may not subsequently attack the registration on the same grounds.

b. Application to Expunge the Registration in the Federal Court

As alluded to above, once a trademark application is issued to registration, the Registrar of Trademarks is \textit{functus officio} with respect to adjudicating the substantive rights to the trademark as between two parties. To the extent that there is a dispute over whether the trademark should have been registered, which can touch on issues of ownership, distinctiveness and registrability of the trademark, Section 57 of the CTMA confers on the Federal Court the exclusive jurisdiction to strike out or vary the trademark registration:

\textbf{57. (1) Exclusive jurisdiction of Federal Court} — The Federal Court has exclusive original jurisdiction, on the application of the Registrar or of any person interested, to order that any entry in the register be struck out or amended on the ground that at the date of the application the entry as it appears on the register does not accurately express or define the existing rights of the person appearing to be the registered owner of the mark.

As per Section 57(1) of the CTMA, expungement proceedings are commenced by way of an application, which is more time- and cost-efficient than an ordinary action. There is no \textit{vive voce} evidence, and the court relies on affidavit evidence which is subject to cross-examination. Unlike Section 45 proceedings in the Trademarks Office, only a "person interested" may initiate the application, which includes anyone whose rights may be restricted or affected by a registration or anyone who reasonably apprehends that he or she may be affected by a registration.\footnote{51. (2) Idem — For the purposes of this Act, to the extent that public notice is given of the fact that the use of a trade-mark is a licensed use and of the identity of the owner, it shall be presumed, unless the contrary is proven, that the use is licensed by the owner of the trade-mark and the character or quality of the wares or services is under the control of the owner.} A franchisor of a misappropriated trademark certainly qualifies, and a failure

\textbf{Section 2 of the CTMA.}
to oppose while the application to register the trademark was pending does not hinder the franchisor's standing as an interested party in later expungement proceedings.\textsuperscript{53} Also unlike Section 45 proceedings, the onus lies on the interested party to show that the attacked registration is invalid, since registrations are presumed to be valid absent evidence to the contrary.

Section 18 of the CTMA provides four grounds for invalidating a trademark registration:

(a) the trade-mark was not registrable at the date of registration;

(b) the trade-mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced;

(c) the trade-mark has been abandoned; and

(d) subject to Section 17, if the applicant for registration was not the person entitled to secure the registration.

The last ground references Section 17 of the CTMA, which speaks to an applicant's entitlement to registration as discussed above in the context of oppositions. As such, the most relevant grounds on which the franchisor may invalidate the registration are similarly: (1) the registrant was not the person entitled to secure the registration because, as a result of the franchisor having used its trademark prior to the registrant's use of the trademark or filing of the application, the registrant's trademark was confusing with the franchisor's trademark; and (2) the registered trademark no longer distinguishes the registrant's goods or services with which the trademark is used from those of the franchisor as a consequence of (1). Also, the considerations discussed previously with respect to opposition proceedings apply equally in expungement proceedings.

Should the Federal Court find in favor of the franchisor, the registration is expunged\textsuperscript{54} or amended\textsuperscript{55} by way of a court order to the Registrar of Trademarks to do same. The Federal Court does not have jurisdiction to substitute one registered owner for another.\textsuperscript{56} Therefore, even though the franchisor has successfully proven itself to have been the rightful owner of the trademark, the Federal Court cannot grant relief in the nature of an assignment of the registration to the franchisor. The franchisor will have to file its own application for registration and face the possibility of opposition proceedings.

Possible Defense to Expungement

Section 17 of the CTMA sets out a possible defense by which a registrant can preserve the registration of a trademark, as it provides that no registration can be expunged or invalidated on the ground of previous use or making known after five years of registration unless it can be


\textsuperscript{54} If the Federal Court finds the registration as a whole invalid.

\textsuperscript{55} If the Federal Court finds the registration invalid only with respect to some of the wares or services specified.

established that the registrant who adopted the registered trademark in Canada did so with knowledge of that previous use or making known.\textsuperscript{57}

A registration for a misappropriated trademark becomes incontestable vis-à-vis expungement on the ground that the franchisor had previously used the trademark after five years of registration, unless the registrant adopted the trademark with knowledge of the fact that it had previously been used by the franchisor. This defense is discussed in more detail, albeit in the reverse perspective, in Section I.D.2. below.

D. Scenario Three – Franchisor Owns a Trademark Registration but There is a Senior User

1. U.S. Perspective

What if the franchisor’s search discloses a third party user of a confusingly similar mark for a similar business that began use of its mark before the franchisor’s nationwide priority date for its federal trademark registration? In the United States, this third party has prior rights in its zone of reputation but could not expand upon issuance of the franchisor’s federal registration. Although the franchisor (as junior user/registrant) cannot expand into the third party’s area, the franchisor then has priority throughout the rest of the country and may prevent the third party from expanding in the future.\textsuperscript{58} However, the franchisor may be at risk of at least injunctive relief in areas into which it has expanded after becoming aware of the third party senior user’s rights, even before the third party arrives in the area.\textsuperscript{59}

A franchisor may seek a federal registration as a strategy to limit the rights of a senior user, “freeze” the user in its current zone of reputation, and obtain priority as to other areas. Once it issues, a federal registration presumes that the registrant has unrestricted priority throughout the entire United States and grants a nationwide priority date. However, this strategy is not without risks. If the senior user learns of the existence of the franchisor’s federal registration, it may petition to cancel that registration at any time before the fifth anniversary of the issuance of that registration based on the senior user’s prior use. The senior user of the mark can successfully rebut the \textit{prima facie} presumption of nationwide priority and claim prior

\begin{itemize}
\item \textsuperscript{57} 17. (1) Effect of registration in relation to previous use, etc. – No application for registration of a trade-mark that has been advertised in accordance with section 37 shall be refused and no registration of a trade-mark shall be expunged or amended or held invalid on the ground of any previous use or making known of a confusing trade-mark or trade-name by a person other than the applicant for that registration or his predecessor in title, except at the instance of that other person or his successor in title, and the burden lies on that other person or his successor to establish that he had not abandoned the confusing trade-mark or trade-name at the date of advertisement of the applicant’s application.
\item \textsuperscript{58} See \textit{Burger King of Florida, Inc. v. Hoots}, 403 F.2d 904, 159 U.S.P.Q. 706 (7th Cir. 1968) (the junior user’s post-registration outlet in Charleston, Ill. was enjoined from using the mark); \textit{Thrifty Rent-A-Car System, Inc. v. Thrift Cars, Inc.}, 831 F.2d 1177, 4 U.S.P.Q.2d 1709, 1712 (1st Cir. 1987).
\item \textsuperscript{59} At least some courts follow the rule that mere knowledge of a remote senior user’s rights will allow a finding of liability. See, e.g., \textit{Sweet Sixteen Co. v. Sweet “16” Shop, Inc.}, 15 F.2d 920, 924 (8th Cir. 1926).
\end{itemize}
rights to a particular area. When brought before the five-year anniversary, this type of challenge will be successful as a matter of law in limiting the geographic scope of the franchisor’s registration if not invalidating the registration entirely. However, once the registration has become incontestable after five years, a senior user can no longer challenge or seek to limit the registration based on prior use and only very limited grounds for a challenge remain. Accordingly, it is generally advisable for the franchisor to wait until its registration achieves incontestability before seeking to expand aggressively into the senior user’s area (or areas contiguous thereto) or otherwise provoking the senior user by, for example, sending a demand letter. However, as noted above, even an incontestable registration does not eliminate the senior user’s prior common law rights, and the franchisor must tread carefully to avoid infringing those rights. In addition, if the parties become involved in a concurrent use proceeding, the Patent and Trademark Office applies a presumption that the senior user is entitled to a greater share of the country in its registration, even as to those areas it does not yet occupy. The franchisor should therefore come to the table with evidence that the senior user is near-moribund with an established track record of nonexpansion.

2. Canadian Perspective

Where the third party is a prior user of the trademark, the franchisor’s registration may be attacked in the Federal Court. As mentioned before, it is the use of a trademark, not the registration, that confers trademark rights. As such, a party that has used a franchisor’s trademark prior to the franchisor’s own use in Canada, and has gained a reputation in the trademark in a particular geographical area, acquires title to the trademark at common law in that area.

The relief of expungement in the Federal Court on the ground of non-entitlement to registration, as discussed above in Section I.C.2.(b), is equally available to this prior user. An example of a prior user’s attempt to expunge a franchisor’s trademark is the case of Budget Blind Service Ltd. v. Budget Blinds, Inc. The respondent from California was in the business of franchising window covering businesses and had registered BUDGET BLINDS in 2006 for “distributorship and retail stores services in the field of window coverings”. The applicant from a city in British Columbia claimed to have used the trademarks BUDGET BLIND SERVICES and BUDGET BLIND CLEANING since 1989, before the filing date of the respondent’s trademark

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61 See 15 U.S.C. §1064(3) (noting that a registration can be cancelled at any time if “it becomes the generic name for the goods or services, or a portion thereof, for which it is registered, or is functional, or has been abandoned, or its registration was obtained fraudulently . . .” among other grounds).


63 Details of any expungement proceeding defended by the franchisor should be described in the franchisor’s disclosure document in the four Canadian provinces where there is franchise legislation (Alberta, Ontario, PEI and New Brunswick). If the franchisor’s trademarks are cancelled or expunged after the franchisee has entered into the franchise agreement, the recourse available to the franchisee will depend on the particular circumstances, including whether the franchise agreement contemplates this possibility and provides the franchisor with the unilateral right to change its trademarks. In addition to the statutory remedies which may be available under Canadian franchise legislation, a franchisee could bring an action for common law misrepresentation or breach or frustration of the franchise agreement.

64 2007 FC 801 (co-author Jennifer Dolman’s represented Budget Blinds, the California company, in this case).
application. The decision turned on the issue of whether the parties' trademarks were confusing with each other on the filing date of the respondent's trademark application, as the application was filed on the basis of proposed use. If so, the respondent franchisor was not the person entitled to secure the registration and the registration would be expunged. The Federal Court found that, in spite of the obvious similarities between the trademarks, the applicant had not met its onus of establishing a likelihood of confusion for two reasons. Firstly, the applicant's trademarks had low inherent distinctiveness, so small differences such as the words "services" and "cleaning" would serve to distinguish the parties' trademarks. Secondly, the parties were carrying on substantially different businesses despite dealing with the same products: the applicant engaged in the cleaning and repair of window blinds and coverings, whereas the respondent was involved in the retail sale and installation of these products.

In an attempt to preserve their registrations in expungement proceedings, registrants often rely on the fact that the parties use their respective trademarks in different geographical areas in Canada to support their position that confusion between the trademarks is unlikely. Indeed, Canadian courts have grappled with the issue of the relevance of geographical separation of the trademarks to the determination of likelihood of confusion. The Supreme Court of Canada put this issue to rest in a very recent decision65 wherein it struck out a trademark registration that was obtained subsequent to a third party's use. The Court made clear that, as the Canadian statutory trademarks regime is national in scope, for the owner of a registered trademark to have exclusive use of the trademark, there cannot be any confusingly similar trademark anywhere in the country prior to its application to register the trademark. Consequently, the geographical location in which the trademark applicant uses or intends to use the trademark is not relevant to the determination of the likelihood of confusion arising from the concurrent use of the trademarks and, by extension, the applicant's entitlement to secure the registration.

When defending an expungement attack based on prior use, the franchisor may rely on the five-year limitation defense as provided by Section 17(2) of the CTMA. Equitable defenses unrelated to trademark rights, such as delay, laches and acquiescence66 on the part of the prior user, may also be asserted.

Where the franchisor successfully invokes the defense provided by Section 17(2) of the CTMA, the Federal Court may nevertheless make an order permitting the prior user to continue using the trademark in a defined territorial region under Section 21 of the CTMA.67


67 21. (1) Concurrent use of confusing marks – Where, in any proceedings respecting a registered trade-mark the registration of which is entitled to the protection of subsection 17(2), it is made to appear to the Federal Court that one of the parties to the proceedings, other than the registered owner of the trade-mark, had in good faith used a confusing trade-mark or trade-name in Canada before the date of filing of the application for that registration, and the Court considers that it is not contrary to the public interest that the continued use of the confusing trade-mark or trade-name should be permitted in a defined territorial area concurrently with the use of the registered trade-mark, the Court may, subject to such terms as it deems just, order that the other party may continue to use the confusing trade-mark or trade-name within that area with an adequate specified distinction from the registered trade-mark.
Several criteria must be met before the Federal Court will make such an order: (i) the prior user must have in good faith used the trademark before the date of filing of the application that issued to registration; (ii) the Court does not consider it contrary to the public interest to allow the prior user to continue using the trademark; (iii) the court order must specifically provide that the prior user can use the trademark in a defined territorial area concurrently with the registered mark; (iv) the court order may be subject to terms that the Court considers just; (v) the court order may provide that the prior user use the trademark with an adequate specified distinction from the registered mark, e.g. additional marking or notations to show that the prior user's trademark is not associated with the registered mark; and (vi) any such court order must be entered on the trademark register within three months of being made.

In The Brick Warehouse Corp v. Bricks Fine Furniture Ltd, the Federal Court granted a consent judgment, which provided for the concurrent use of the plaintiff's and defendant's trademarks and trade name where the defendant's use was restricted to the Province of Manitoba. Canadian jurisprudence is otherwise scant on the subject of concurrent use under Section 21 of the CTMA.

E. Scenario Four – Franchisor is the Senior Registrant and Senior User

1. U.S. Perspective

If the franchisor owns a U.S. federal registration for its mark, and a third party began using a confusingly similar mark after the registration issues, the franchisor will have priority as to the entire United States, including the geographic area where the third party is operating. As a result of the federal registration, any use by a third party after the nationwide priority date of that registration may be challenged by the franchisor on the basis that there is a likelihood of confusion between the franchisor's and the third party's marks in the geographic area where the third party operates.

If the third party junior user chooses to operate in its selected market, it does so at its own risk and is, essentially, building on quicksand with limited rights no matter how long it has been in operation. If and when the franchisor expands into the third party's geographic area of operation or can show "concrete plans" to do so, the franchisor has priority to use its mark and can enjoin the third party from using the confusingly similar mark. For example, in Synergistic International, L.L.C. v. Korman, the plaintiff received a federal registration for its GLASS DOCTOR trademark in 1977. Although a third party had been using both the marks GLASS DOCTOR and WINDSHIELD DOCTOR in the Virginia Beach area for over seventeen years

(2) Registration of order – The rights conferred by an order made under subsection (1) take effect only if, within three months from its date, the other party makes application to the Registrar to enter it on the register in connection with the registration of the registered trade-mark.


68 The landmark case defining territorial rights for a federally registered mark is Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

70 470 F.3d 162 (4th Cir. 2006).

71 Co-author Christopher Bussert of Kilpatrick Townsend & Stockton LLP, was one of the counsel for Synergistic International, L.L.C.
before the plaintiff expanded to that area and sent a cease and desist letter, the Fourth Circuit affirmed the lower court's grant of summary judgment against the third party user because it began its use long after the plaintiff received its federal registration. In so holding, the court reasoned that the third party junior user was incapable of establishing protectable rights in its marks, no matter how long it had been in operation or how much goodwill it had allegedly accumulated, in light of the plaintiff's federal registration.

Although the franchisor technically has superior rights as a result of its federal registration, its ability to challenge a third party junior user's use of a confusingly similar trademark is subject to a "ripeness" threshold. Specifically, the franchisor cannot successfully challenge the third party user unless and until it can show a likelihood of confusion between its trademark and the third party's trademark if they are used concurrently in the third party user's geographic area of operation. This can be proven by establishing that (1) the franchisor's reputation extends to the third party's area, or (2) the franchisor has recently expanded or has concrete plans to expand into this area.\(^2\) In the absence of establishing one of these two elements, the crux of trademark infringement (i.e. likelihood of confusion) is not present, because consumers in the third party user's area are not likely to associate the third party use with the franchisor and become confused. For example, in *Comidas Exquisitos, Inc. v. Carlos McGee's Mexican Cafe, Inc.*\(^3\) the court held that an Atlanta based restaurant chain, and owner of a federal trademark registration for CARLOS MCGEE, did not have a right to prevent the use of the "Carlos McGee" name for a restaurant in Iowa because the evidence established that the registrant did not have a reputation in Iowa and did not have a present intent to move into the Iowa market, and therefore was unable to establish a likelihood of confusion.

A number of geographic rights cases turn on whether the senior federal registrant can show sufficiently concrete plans to expand into the new area. There is no firm standard as to the nature and extent of the activity required to meet the "concrete" plans test, but evidence of one or more of the following will likely be sufficient: (1) a recently signed franchise agreement for the new geographic area; (2) a *bona fide* franchise prospect for a new area that balks at signing a franchise agreement because of the third party's conflicting use; (3) a planned opening date for the new franchise location in the new geographic area; and/or (4) the new area franchisee's attendance at a franchisor-sponsored pre-opening training. On the other hand, a bare operational goal or desire eventually to expand a franchise concept throughout the United States, without more, will generally not be sufficient.

Because a franchisor cannot successfully challenge a third party junior user until it has entered or has concrete plans to enter the third party's geographic area of operation, the doctrine of laches (i.e., sleeping on one's rights) usually does not apply. Accordingly, the fact that a franchisor may have explicit knowledge of a third party's operations in a particular geographic area for many years prior to expansion into that area generally will not preclude the franchisor from later expanding into that area and enjoining the third party's use. This is true even if the third party's geographic area of operation is closely contiguous to the franchisor's

\(^2\) In contrast, a franchisor should not delay in opposing or otherwise challenging a third party's application or registration for a similar mark. See Section I.C.1.

existing area. For example in Synergistic Intl', Inc. v. Windshield Doctor, Synergistic sought to expand its GLASS DOCTOR franchise system into previously unserviced areas of Los Angeles County in late 2002. The defendants, operators of a similar business under the name WINDSHIELD DOCTOR in those areas, asserted that Synergistic had unreasonably delayed taking any action against them because Synergistic's existing franchisees in Los Angeles County (namely Pasadena) and in Orange County (located immediately adjacent to Los Angeles County) had allegedly coexisted with the defendants' business since March 1999. The court rejected the defendants' assertion of laches and held that Synergistic was entitled to expand into the areas in question and to enjoin the defendants' continued use of WINDSHIELD DOCTOR. In so holding, the court noted that although Synergistic's existing franchisees were in close geographic proximity to the defendants' operations, they were not in direct competition. The court based its observations in part on Synergistic's evidence that the existing telephone directories in the geographic areas served by the defendants' current locations and by Synergistic's existing franchisees failed to show any overlapping listings.

2. Canadian Perspective

In contrast to the law in the United States, the CTMA protects the registrant's exclusive right to use the registered trademark anywhere in Canada. Specifically, Section 19 grants to the registrant the exclusive right to use the registered trademark, and Section 20 provides that it is an infringement of the registrant's trademark rights for a party to use a confusingly similar trademark. Accordingly, any subsequent use of an identical or confusingly similar trademark by anyone is prohibited by the CTMA, whether or not actual confusion would arise from such use. Also, recent Canadian jurisprudence has affirmed that the analysis of the likelihood of confusion is based on the hypothetical situation that the registered trademark and the impugned trademark are used in the same area – whether they are or will actually be used in the same marketplace is irrelevant to the analysis. As such, a franchisor registrant need not show "concrete plans" to expand to the subsequent user's geographical region of operation in order to succeed in an infringement and/or passing-off action in the provincial superior courts or the Federal Court.

This broad scope of protection is illustrated in Mr. Submarine Ltd. v. Amandista Investments Ltd. In that case, Mr. Submarine brought an action against Amandista for infringement of three registered trademarks and sought an injunction to prevent Amandista from using, among others, the trademark MR. SUBS' N PIZZA in association with the latter's business. The Federal Court of Appeal reversed the trial judge's dismissal of the action and held that Mr. Submarine's use of its registered trademark was not restricted to those parts of Canada within which it and its licensees had been carrying on business. Rather, it was entitled to exclusive use of its trademark in any additional outlets that it might see fit to establish in the future. Furthermore, the Court held that Mr. Submarine was not confined to the sale of food products by the methods it currently employed or had employed in the past, and was not

74 However, laches may apply if the franchisor delays an unreasonable period of time in addressing infringement in geographic area in which it is currently operating. See Conan Props., Inc. v. Conans Pizza, Inc., 752 F.2d 145, 152 (5th Cir. 1985) (finding laches in one specific locale, but noting that this did not equate to laches throughout the entire country).

75 66 U.S.P.Q.2d 1936 (C.D. Cal. 2003); co-author Christopher Busser of Kilpatrick Townsend & Stockton LLP was one of the counsel for Synergistic Intl', Inc.

precluded from changing the color of its signs or the style of lettering for its trademark or from engaging in a telephone and delivery system such as that followed by the Amandista. Confusion must be assessed not only having regard to the registrant's present business in the area of the defendant's operations, but also having regard as to whether confusion is likely if the franchisor were to operate in that area using its trademark in any way open to it.  

In an action for trademark infringement and passing-off, the franchisor may request other relief as applicable, such as an interim, interlocutory and permanent injunction, damages, accounting of profits, punitive damages if warranted, and costs on a solicitor-client basis.  

F. The Effect of "Other" Registrations on Priority  

Common law trademark analysis in the United States is complicated by the existence of fifty sovereign states. Potentially relevant state rights arising from state trademark registrations, incorporations and trade name filings may affect the trademark rights of the parties, and franchisors should research applicable state statutes, which vary as to the effects of these registrations and filings. For example, in the face of a state trademark registration that is granted before the nationwide priority date of a franchisor's federal trademark registration, the franchisor should be aware that some state trademark registration statutes grant protection throughout the entire state even if the third party only operates in a limited region of the state. Although this is the rule in a minority of jurisdictions, it demonstrates that the franchisor should be aware that state registrations may have an impact on its expansion plans. However, in the event that the franchisor owns a valid federal registration with a nationwide priority date prior to a party's acquisition of a state registration, the rights arising from the state registration will be deemed to be subservient to those of the franchisor's federal registration.  

In Canada, trademark registration is effected at the federal level, and there is no Canadian equivalent of a state registration for trademarks. Traders and business proprietors can register their corporate names and business names with the competent authorities of the provinces in which they operate. However, these administrative authorities do not scrutinize applications to the same extent as the Trademarks Office, and rights to the corporate or business names can only be enforced by passing-off actions. These registrations do not affect priority of title to a trade name or trademark in any way.

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77 This principle that the assessment of the likelihood of confusion should not be limited to the registrant's actual use of its trademark but should include a consideration of the potential use of the trademark as permitted by the registration in the case of a word mark was recently propounded by the Supreme Court of Canada (see Masterpiece Inc. v. Alavida Lifestyles Inc., 2011 SCC 27 at paras. 51-59).

78 In the four Canadian provinces (Alberta, Ontario, PEI and New Brunswick) where there is currently franchise legislation, any action for trademark infringement or passing off commenced by the franchisor should be described in the franchisor's disclosure document.

79 States that provide statewide rights by statute include Ohio, Washington, and Virginia. However, a majority of state statutes only provide the state registrant with rights coextensive with its actual area of operation. See McCarthy § 22:1.

80 See id. § 22:2.
G. Business Strategies for Dealing with a Third Party Senior User in a Geographic Area of Interest

1. U.S. Perspective

If the franchisor does not have priority against a third party senior user in the area in which it would like to expand, it must then make a business decision on how to proceed. As an initial matter, before provoking a dispute or reaching out to the third party, the franchisor should first assess the validity of the third party’s rights by determining if the mark at issue is still in use. If the third party owns a federal registration, the franchisor should examine PTO records to see if the third party has properly maintained the registration for the trademark at issue (as well as other registrations it owns) as this may provide insight on the viability of the third party’s operations.

If the trademark is no longer in use, and the third party owns a federal registration, the franchisor should consider initiating a cancellation proceeding in the PTO on the grounds of abandonment. However, cancellation proceedings based on abandonment put a heavy burden on the movant, who must show by clear and convincing evidence that (1) the mark is not in use; and (2) there is an intent on the part of the registrant not to resume use.\(^{81}\) If an unregistered trademark is no longer in use by the third party, then this prior use should not prevent the franchisor from expanding into the new area. Nevertheless, the franchisor must still proceed with great caution and fully investigate whether the third party intends to resume use; otherwise, the franchisor may risk infringing the third party’s rights when expanding into the latter’s area of operation.\(^{82}\)

Based on the results of the investigation and evaluation of the third party’s business and rights, as well as the franchisor’s own business strategy, the franchisor may consider the following options if the third party user has not abandoned its trademark:

a. Retreat

- Elect against expansion into the third party’s territory. This option obviously limits growth, but also lessens the chance of a dispute and the costs associated with the same.

- Adopt an alternative mark if the franchisor chooses to expand into that territory. For example, the Einstein’s Bagels chain has operated under an alternative brand (i.e. Melvyn & Elmo’s) in some territories where the Einstein’s name is not available. Implementing such an approach will present a challenge to the franchisor in developing and supporting the secondary brand both financially and administratively.

\(^{81}\) See id. § 17:12.

\(^{82}\) See Exxon Corp. v. Humble Exploration Co., 695 F.2d 96 (5th Cir. 1983), on remand, 592 F. Supp. 1226, 224 U.S.P.Q. 234 (N.D. Tex. 1984) (on remand, district court found that during the period of nonuse, Exxon did not have an intent not to resume use of the mark HUMBLE and did have an intent to resume commercial use of the mark. HUMBLE held not abandoned).
b. **Be Proactive**

- Acquire the third party or its rights in the mark. In most cases, the franchisor will be interested only in the mark and not in the goods and services or business assets associated with the mark (such as inventory, vehicles, etc.), which should result in a more reasonable purchase price. The franchisor may be able to negotiate an even lower purchase price if it allows the third party a defined period of time (e.g., six to twelve months) following the purchase to permit the third party to transition to a new mark and the goodwill associated with its business. Any such transition period should require the third party to adhere to concrete milestones, such as for updating local telephone directories, trade publications, Internet references, and changes to signage. The franchisor can further facilitate the completeness of this transition by agreeing not to open a franchise location in the area in question until the end of the transition period. In some cases the franchisor may want to consider making the purchase through an intermediary like Marksman to conceal its identity and avoid unnecessary inflation of the asking price. In any event, if the franchisor is unable to consummate the acquisition of rights, it must be prepared not to initiate use of the mark at issue in the third party's territory or face the possibility of significantly increased financial exposure as a "willful infringer."  

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83 Third party vendors, such as Locability, can assist with updating and revising the necessary Internet references, which are often culled from phone directories and other sources which may be out of date. See http://www.locability.biz.

84 See *Holiday Inns, Inc. v. Airport Holiday Corp.*, 493 F. Supp. 1025 (N.D. Tex. 1980), judgment aff'd, 683 F.2d 931 (5th Cir. 1982) (profits and damages trebled because of defendant's "willful" and "flagrant" infringement).


86 15 U.S.C. § 1052(d). If this process is not cooperative, this can be an adversarial proceeding in which the senior user will have the burden of showing areas in addition to those recited by the junior user in its application.
2. Canadian Perspective

In addition to the solutions proposed above, it is possible for a franchisor to use its trademark concurrently with a prior user's use of its trademark in Canada. Concurrent use usually arises as a result of a settlement of a contentious dispute between the parties.

Where a franchisor has a trademark registration but a prior user has priority of title to the trademark, concurrent use may occur in a number of ways. As discussed above in Section I.D.2, the prior user may initiate expungement proceedings to invalidate the franchisor's registration based on its earlier use. If the registration is incontestable with respect to prior use under Section 17(2) of the CTMA, the Federal Court may nonetheless make an order under Section 21 of the CTMA allowing the prior user to continue using its trademark within a defined territorial area according to the terms of the order. If, however, the franchisor cannot benefit from the Section 17(2) defense, it is possible for the parties to settle the matter by way of a voluntary amendment to the franchisor's registration to restrict the goods and/or services or geographical territories for which trademark protection extends or by way of a partial assignment of the franchisor's trademark registration to the prior user.

Section 48(1) of the CTMA permits the partial transfer of both a registered and an unregistered trademark with respect to goods and/or services with which it has been used.

Section 50 of the Trade-marks Regulations sets out the effect of a partial assignment:

50. Where, as a result of a transfer, a registered trade-mark becomes the property of one person for use in association with some of the wares or services specified in the registration, and of another person for use in association with other such wares or services, and the transfer is registered by the Registrar, each person

(a) For the purpose of the Act, is deemed to be a separate registered owner of the trade-mark for use in association with the wares and services in respect of which the person has acquired or retained ownership of the trade-mark; and

(b) For the purposes of section 43 to 46 of the Act, is deemed to have a separate registration of the trade-mark.

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67 Discussed in Section I.D.2 above.

68 As permitted by Section 41(1) of the CTMA.

69 In the four Canadian provinces with franchise legislation (Alberta, Ontario, PEI and New Brunswick), franchisors must remember to describe their rights to trademarks together with any material facts relating to the use of its marks. Such material facts should include a description of any concurrent use of the trademarks by a prior user.

90 48. (1) Trade-mark transferable – A trade-mark, whether registered or unregistered, is transferable, and deemed always to have been transferable, either in connection with or separate from the goodwill of the business and in respect of either all or some of the wares or services in association with which it has been used.

However, the CTMA does not provide for partial territorial trademark assignments in Canada – a trademark must be assigned for the whole of Canada: Great Atlantic & Pacific Tea Co. v. Canada (Registrar of Trade-marks), [1945] Ex. C.R. 233 (Can. Ex. Ct.).

91 SOR/96-105, as amended.
Partial assignment of a registered trademark effectively splits the original trademark registration into two, each containing some of the goods and/or services specified in the original registration. The original registration in turn becomes inactive on the trademark register. However, Section 48(2) of the CTMA states that:

48. (2) Where two or more persons interested – Nothing in subsection (1) prevents a trade-mark from being held not to be distinctive if as a result of a transfer thereof there subsisted rights in two or more persons to the use of confusing trade-marks and the rights were exercised by those persons.

Therefore concurrent use of the trademark post-partial assignment carries the risk that the distinctiveness of the trademark may be lost.

Concurrent use may also arise where a prior user opposes a franchisor's trademark application. In exchange for the withdrawal of the opposition, the franchisor may agree to insert a disclaimer in the application disclaiming its right to use the trademark in certain geographical regions and agree not to challenge the prior user's priority in the trademark with respect to the disclaimed regions.

There is no "one size fits all" solution and the franchisor must evaluate its own needs, finances, and growth strategy, as well as those of the third party, to determine the best approach.

II. INTERNATIONAL PARALLEL: BRINGING A FOREIGN FRANCHISE INTO THE UNITED STATES AND CANADA

Foreign franchisors seeking to expand their concept to the United States or Canada also face unique challenges. Franchisors often spend significant amounts of time and money on U.S. or Canadian business plans before determining the crucial question: whether the trademark is even available in these jurisdictions. The importance of determining availability of the trademark cannot be understated, especially since trademark registrations in a foreign country have no impact on the franchisor's substantive trademark rights in the United States and Canada.

A. U.S. Perspective

Before committing substantial resources to expanding into the United States, the foreign franchisor should conduct a commercial trademark search, as well as other informal searches (such as Google and telephone directory services) discussed above in connection with geographic expansion within the United States. To be clear, registration in a country outside of the United States does not provide rights in the United States and it will be necessary for the foreign franchisor to file new trademark applications in the United States. If the franchisor does not have a U.S. registration, this must be disclosed in the Franchise Disclosure Document.

92 As an example, see trademark registration TMA531590 for WANTED.

93 Recall that loss of distinctiveness is a grounds for invalidating a trademark registration. Query whether both trademark registrations that resulted from the partial assignment would be expunged simultaneously if the trademark loses its distinctiveness.
which could greatly impact the franchisor’s ability to sell its franchises successfully in the United States.

The franchisor may file a trademark application based on use in the United States, a bona fide intent-to-use the mark in the United States, or based on a foreign application (resulting in a “Section 44(d)” application). A Section 44(d) application has a right of priority over domestic applications as long as it “is filed within six months from the date on which the application was first filed in the foreign country,” and the goods and services specified therein do not exceed the scope of goods and services in the foreign application.94 Constructive use, thus, will not protect a trademark owner from subsequent filings of Section 44(d) applications.

It is important to note that delay in filing a U.S. application may result in a lost opportunity to expand the brand into the United States. Accordingly, it is crucial to file the application as soon as possible, regardless of the filing basis. In addition, although knowledge of a prior user’s use and adoption of a trademark anywhere within the United States may undermine whatever rights the junior user might otherwise have acquired from using the same mark, knowledge of a mark’s prior use outside the United States by a foreign user does not preclude good faith adoption and use of the identical mark in the United States prior to the entry of the foreign user into the U.S. market.95 However, “bad faith” adoption and use, which preclude a junior user’s acquisition of trademark rights vis-à-vis a foreign franchisor, may be found if: (1) the foreign mark is famous or well-known in the United States,96 or (2) the use made by the junior user is a nominal one made solely to block the prior foreign user’s planned expansion into the United States.97 In Grupo Gigante S.A. de C.V. v. Dallo Co., Inc., the Ninth Circuit specifically noted the “famous mark” exception for foreign trademarks, stating:

94 15 U.S.C. § 1126(d). See generally Pegram, Section 44 Revision: After the 1988 Act, 79 TRADEMARK REP. 220-37 (1989). A foreign franchisor wishing to expand into the United States may wish to file its U.S. trademark application under Section 1(b), claiming a bona fide intent to use the mark in the U.S., as well as under Section 44(d), claiming priority based on a foreign application.

95 See, e.g., Linville v. Rivard, 26 U.S.P.Q. 2d 1508, 1512 (T.T.A.B. 1993) (ULTRACUTS for salon services) ("it is a fundamental rule that activity outside the United States is ineffective to create rights in marks within the United States"). The Court in Person’s Co. v. Christman, 900 F.2d 1565 (Fed. Cir. 1990) (PERSON’S for apparel), affirmed the Board’s finding that the foreign user (Person’s) was not entitled to cancel Christman’s registration. Rather than filing a petition for cancellation with the Board, however, Person’s may have fared better by bringing suit in a federal district court. For instance, as the Federal Circuit noted, the Board is not authorized to consider claims for unfair competition under Articles 6 bis and 10 bis of the Paris Convention. Id. at 1570-71. Compare id. with Davidoff Extension, S.A. v. Davidoff Int’l, Inc., 221 U.S.P.Q. 465 (S.D. Fla. 1983) (under Florida law, knowledge of the use of a name by a foreign corporation may result in an injunction against the use of that name by a domestic corporation, even though the foreign corporation is not qualified to do business in the state). See generally 3 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 19.24, at 119-23 (4th ed. 1990): Mostert, Is Goodwill Territorial or International? Protection of the Reputation of a Famous Trade Mark Which Has Not Been Used in the Local Jurisdiction, 11 EUR. INTELL. PROP. REV. 440 (1989); 4 MccARTHY § 29:3 (“prior use of a trademark in a foreign country does not entitle its owner to claim exclusive trademark rights in the United States as against one who used a similar trademark in the U.S. prior to entry of the foreigner into the domestic American market").


97 See Person’s Co. v. Christman, 900 F.2d at 1570.
While the territoriality principle is a long-standing and important doctrine within trademark law, it cannot be absolute. An absolute territoriality rule without a famous-mark exception would promote consumer confusion and fraud. Commerce crosses borders. In this nation of immigrants, so do people. Trademark is, at its core, about protecting against consumer confusion and “palming off.” There can be no justification for using trademark law to fool immigrants into thinking that they are buying from the store they liked back home.96

The Ninth Circuit noted that a foreign owner of a mark must show a higher level of recognition of the mark than that required to establish secondary meaning to meet the “well-known” requirement, but need not show the level of recognition necessary to show fame under federal dilution law. According to the Ninth Circuit, evidence of intentional copying of the mark and “whether customers of the American firm are likely to think they are patronizing the same firm that uses the mark in the other country” should also be considered in assessing whether foreign marks should be extended protection in the United States.99 In contrast, the New York Court of Appeals relied upon the unfair competition theory of “misappropriation,” not classic trademark law or a specific “well-known marks doctrine”, to explain how a foreign mark might be protected in the United States, requiring proof of (1) deliberate copying; and (2) that consumers “primarily associate” defendant’s mark with the foreign plaintiff.100

B. Canadian Perspective

As discussed above, trademark rights in Canada arise from, and are maintained by, actual use of the trademark. As a result, before expanding its operation into the Canadian market, it is imperative for a foreign franchisor to investigate thoroughly whether its trademark could be confused with another currently registered or used trademark or trade name in Canada. Where the investigation reveals that the foreign franchisor’s trademark is being used or registered by an unrelated party in association with similar goods and/or services, the franchisor’s right to use its trademark in Canada is determined by the priority of title to the trademark. As explained below, a significant body of law has developed involving foreign franchisors which have sought to expand their concepts to Canada and faced conflicting third-party use and registration of confusingly similar marks.101

1. Scenario One – Franchisor’s Trademark is Being Used by a Third Party (Neither Party has a Registration for the Trademark)

As discussed above, rights to a trademark are acquired through use, and as a general rule, the first user in the geographical area of interest is the party entitled to use the trademark in Canada. Where a franchisor’s trademark is already in use in an area of Canada by an unaffiliated party in association with goods and/or services similar to or the same as those of interest to the franchisor, this prior user may have priority rights to the trademark in that area.

96 391 F.3d 1088, 1094 (9th Cir. 2004) (GIGANTE for a grocery stores in Mexico and California) (remanding to determine whether the foreign mark was sufficiently “well-known” in the relevant U.S. market).
99 Id. at 1098.
100 ITC Ltd. v. Punchgini, Inc., 518 F.3d 159 (2d Cir. 2008) (BUKHARA for restaurant services in Asia and New York).
101 In contrast, U.S. law regarding expansion of Canadian or foreign franchise systems into the United States is much less developed.
Nevertheless, the franchisor is not without recourse if its trademark has already achieved renown outside Canada which predated this prior user's first use.

Despite the “first to use” principle of acquiring trademark rights, a foreign trademark owner can have prior proprietary rights to its trademark in Canada notwithstanding the lack of use of the trademark in Canada, if it can demonstrate that the trademark has acquired “extra-territorial reputation” in Canada as a result of the trademark owner’s use of the trademark in its home or another foreign jurisdiction before the Canadian user's first use of the trademark. In the context of misappropriation of a foreign franchisor's trademark, the franchisor would therefore be able to restrain a Canadian prior user from continuing using the same or confusingly similar trademark in Canada because it has obtained common law rights to its trademark in this fashion.

This principle is illustrated in the case of Orkin Exterminating Co. v. Pestco Co of Canada,102 in which Orkin brought an action in the province of Ontario against Pestco for having passed itself off as Orkin by using Orkin's name and trademark in Canada. Orkin was a U.S. company that had used the name ORKIN and a logo in the U.S. since 1920 for pest control services but had never directly or indirectly carried on business in Canada, and its services were not available in Canada. Pestco was a Canadian company that operated the same line of business and had adopted Orkin's name and logo while being fully aware of Orkin’s use of them in the U.S. At trial, Orkin adduced evidence that Canadian travelers in the U.S. were familiar with its name and logo, and some of them had engaged its services there. There was also evidence that Orkin had advertised in a limited number of U.S. publications with a Canadian circulation.

Based on the evidence, the trial judge found that Orkin had established that it had sufficient reputation in its name and logo in Canada, as its activities in the U.S. had become known to some Canadians. The trial judge also held that it is not necessary that an entity be carrying on business in Canada before it can acquire a protectable proprietary interest in its trademark or trade name. Affirming this principle, the Ontario Court of Appeal also found that Pestco's use of Orkin's name and logo was intended to deceive customers into believing that there was a connection between the parties, and that Orkin did not have to be in direct competition with Pestco to suffer injury from Pestco's use of its name. The Court of Appeal further held that, if the plaintiff's trade name has a reputation in the defendant's jurisdiction so that the public associates it with the plaintiff's goods or services, the defendant's use of that trade name would result in the plaintiff's loss of control over the impact of its trade name in the defendant's jurisdiction. The plaintiff would in turn be vulnerable to losing existing as well as prospective customers in that jurisdiction for goods or services provided in the plaintiff's home jurisdiction, and would be unable to use its trade name in Canada when it expands its business into Canada. The competing rights of the parties in this case were to be determined as of the date when Pestco started using Orkin's name in Canada, and, as of that date, Orkin's reputation in Canada as a result of its Ontario customers and various advertising was strong enough for its rights to outrank those of Pestco.

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Although it is typically onerous for plaintiffs in Canada to establish passing-off claims, Orkin and subsequent Canadian cases\textsuperscript{103} provide foreign franchisors who have no place of business in Canada a solid basis for reclaiming a misappropriated trademark in circumstances where a reputation in the franchisor’s trademark exists in Canada before the Canadian prior user’s use of the trademark. In particular, the principle that a foreign franchisor can prevent the use of its trademark in Canada on the basis of acquired reputation without using the mark in Canada is squarely affirmed in *Enterprise Rent-A-Car Co. v. Singer*.\textsuperscript{104} In that case, the U.S. plaintiff had used the ENTERPRISE trademark and trade name in association with car rental business in the United States since the early 1970s. The defendant was also engaged in the car rental business and changed its name to ENTERPRISE CANADA in 1991. At the time it commenced the passing-off proceeding under Section 7(b) of the CTMA in 1993, the plaintiff had neither registered nor used its trademark in Canada. However, it had numerous car rental locations throughout the United States and was well-established in the “sun belt” where Canadians frequently vacationed. The evidence also indicated that the plaintiff had rented cars to Canadian residents visiting the United States, and for at least five years before the commencement of the proceeding, some of the plaintiff’s U.S. advertising was broadcast on TV in Canada. The plaintiff had further placed a limited number of print ads in newspapers and trade publications which circulated across Canada, as well as established a toll-free number which had been accessible in Canada since 1990.

The Federal Court found that at the time the defendant adopted the ENTERPRISE name and trademark in Canada, the plaintiff had already established a sufficient level of goodwill and reputation in Canada in association with this mark that it deserved protection under Canadian law. Evidence that the mark was known by some members of the Canadian public was sufficient to establish a protectable reputation in the mark in Canada, and it was not necessary for the plaintiff’s trademark to be “famous” in Canada in order to enjoy the protection of its goodwill.

Since Orkin, the debate regarding extra-territorial reputation has largely focused on the extent of reputation required anywhere in Canada to support a passing-off claim when the claimant does not directly carry on business in Canada. Canadian courts are increasingly scrutinizing evidence proffered by the plaintiff and demanding more direct evidence of consumers from the local jurisdiction to prove reputation and potential confusion. For instance, Canadian courts have found evidence that requires them to draw an inference, e.g. travel statistics between two jurisdictions, insufficient in the absence of further evidence. Examples of reputation evidence that have been found persuasive by the court include: affidavits of immigrants, travelers and restaurant critics and travel statistics that demonstrate close connection between two jurisdictions,\textsuperscript{105} advertisement in Canadian newspapers and publications having Canadian circulation,\textsuperscript{106} catalogues with circulation in Canada and sales figure in Canada by catalogue,\textsuperscript{107} figures of patronage by Canadian customers and evidence.


\textsuperscript{105} *Coin Stars Ltd. v. K.K. Court Chili & Pepper Restaurant Ltd.* (1990), 33 C.P.R. (3d) 186 (B.C.C.A.).


showing extent of spillover advertising, and survey evidence showing strong association of the trademark with the plaintiff across Canada.

2. **Scenario Two – Franchisor’s Trademark is Applied for or Registered by a Third Party**

Where a foreign franchisor’s trademark has been applied for registration or is currently registered by an unaffiliated party in Canada, the avenues by which to challenge such application or registration that were discussed in Section I.C.2. above are equally available to the foreign franchisor. Here, the discussion is focused on opposing a pending application to register the franchisor’s trademark and expunging the registration.

a. **Opposition of Pending Application by the Franchisor**

As is the case in Section I.C.2. above, the most applicable grounds for opposition in the context of misappropriation of a franchisor’s trademark are those set out in Sections 38(2)(c) and (d) of the CTMA. Section 38(2)(c) references Section 16 of the CTMA, which speaks to an applicant's entitlement to registration where the application is filed on the bases of "actual use" and "proposed use" respectively. Section 38(2)(d), on the other hand, refers to the trademark itself and provides that the application can be opposed if the trademark is not “distinctive”.

These provisions allow the franchisor to oppose the application by asserting that (1) the applicant is not entitled to register the trademark because, as a result of the franchisor having made its trademark known in Canada prior to the applicant’s use of the trademark or filing of the application, the applicant’s trademark is confusing with the franchisor’s trademark; and

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106 *Enterprise Rent-A-Car, supra.*


110 Recall Section 16 of the CTMA:

16. (1) Registration of marks used or made known in Canada – Any applicant who has filed an application in accordance with section 30 for registration of a trade-mark that is registrable and that he or his predecessor in title has used in Canada or made known in Canada in association with wares or services is entitled, subject to section 38, to secure its registration in respect of those wares or services, unless at the date on which he or his predecessor in title first so used it or made it known it was confusing with

(a) a trade-mark that had been previously used in Canada or made known in Canada by any other person;

... (3) Proposed marks – Any applicant who has filed an application in accordance with section 30 for registration of a proposed trade-mark that is registrable is entitled, subject to sections 38 and 40, to secure its registration in respect of the wares or services specified in the application, unless at the date of filing of the application it was confusing with

(a) a trade-mark that had been previously used in Canada or made known in Canada by any other person;...

111 Section 16(1)(a) of the CTMA.

112 Section 16(3)(a) of the CTMA.
(2) the trademark should not be registered because, as a consequence of (1), the applicant's trademark is not distinctive.

i. **Opposition Based on Confusion from “Making Known”**

The argument that the applicant is not entitled to register the trademark because it is confusing with a trademark which the foreign franchisor has previously made known in Canada is akin to the assertion that the franchisor has acquired prior trademark rights at common law as a result of developing extra-territorial reputation. However, in an opposition, the franchisor is able to rely on the notoriety of its trademark in Canada without the burden of establishing actual damage or likelihood of damage. Nevertheless, proving that the franchisor's trademark has been made known in Canada by the relevant reference dates is not without its hurdles.

A trademark is deemed to be made known in Canada if its use in a foreign country has become “well known” in Canada to potential or actual dealers in, or users of, the goods and services by reason of the distribution of goods in Canada or the advertising of goods or services in printed publications with Canadian circulation or by radio or television broadcasting.\(^{113}\) In light of this definition, it is clear that the legislator intended to protect internationally well-known trademarks from being misappropriated before the rightful trademark owners have acquired rights to such trademarks in Canada by actual use.

Canadian courts have held that, in order for a trademark to be considered well known, it must be known to a substantial extent in Canada\(^{114}\) or in a substantial part of Canada.\(^{115}\) For example, in *J.C. Penny Co. v. Gaberdine Clothing Co.*,\(^{116}\) the applicant who sought to expunge a trademark presented clear evidence of two deliveries of jeans marked with its trademark to Canada. On the issue of whether the applicant had made its trademark known in Canada at the relevant time, the trial judge held that a trademark cannot be regarded as being well-known if it is known only in a small part of Canada.

With the boom and popularity of e-commerce, goods and services are increasingly sold through or advertised on websites. It is conceivable that a trademark may become well known in Canada by reason of extensive use on the Internet.

ii. **Opposition Based on Lack of Distinctiveness**

The applicant's trademark can be rendered not distinctive if the franchisor's trademark has previously gained a reputation in Canada. The trademark application can therefore be opposed on the basis that the applicant is not entitled to register the trademark because it does not distinguish the applicant's goods or services as a result of the prior reputation of the franchisor's trademark.

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\(^{113}\) Section 5 of the CTMA; the foreign country must be a member of the Union for the Protection of Industrial Property constituted under the Paris Convention or a WTO member.

\(^{114}\) *Robert C. Wian Enterprises Inc. v. Mady* (1965), 46 C.P.R. 147 (Ex. Ct.).


The difficulty in asserting this ground of opposition, however, is illustrated in *Stink Inc. v. Salt & Pepper Holdings Ltd.*\(^{117}\) In that case, the opponent, the owner of a San Franciscan restaurant with a menu that emphasized the use of garlic and operated under the trademark THE STINKING ROSE, appealed the Trade-marks Opposition Board's decision to dismiss its opposition to the application to register the same mark for use in association with a restaurant on the basis of use in Coquitlam, British Columbia. The main issue on appeal was whether the trademark was non-distinctive of the applicant's services by reason of the opponent's reputation in Canada for the same trademark.

The Board found that the opponent marketed its restaurant by contacting travel agents and other people in Canada who had received its brochure, catalogue or postcard on which the restaurant was displayed. Also, a number of customers who visited the applicant's restaurant in B.C. had asked if the restaurant was affiliated with the opponent's in San Francisco. However, the Board found the opponent's restaurant had only been in operation in San Francisco for about three and a half years before the opposition, while the applicant had operated its restaurant for almost 14 months prior to the opposition. In the end, the Board concluded that despite the fact that the applicant had adopted the trademark with full knowledge of the opponent's restaurant and the repeated instances of actual confusion of the two restaurants by visitors to the applicant's restaurant, the applicant had met its burden of showing that its trademark distinguished its services from those of the opponent in Canada.

On appeal, the Federal Court found no reason to disturb the Board's findings of fact and conclusion, even though it cited the following principles:\(^{118}\)

A trade mark can neither distinguish nor be adapted to distinguish the services of a person if another person has used the mark in a foreign country and it has become known in Canada as the latter's mark in respect of similar services. On the issue of lack of distinctiveness of a mark, although it must be shown that rival opposing mark must be known to some extent at least, it is not necessary to show that it is well known or that it has been made known solely by the restrictive means provided for in Section 5 [of the Trade-marks Act]. It is sufficient to establish that the other mark has become known sufficiently to negate the distinctiveness of the mark under attack.

The attack based on non-distinctiveness is not restricted to actual performance of services in Canada... It also may be founded on evidence of knowledge or reputation of the opposing mark spread by means of word of mouth and evidence of reputation and public acclaim and knowledge by means of newspaper or magazine articles as opposed to advertising. All relevant evidence may be considered which tends to establish non-distinctiveness.

As can be observed, the threshold for showing that the foreign franchisor's trademark has gained a reputation in Canada for the purpose of establishing non-distinctiveness of the applied-for trademark is lower than that for establishing that the franchisor's trademark has been made


\(^{118}\) These excerpts are from *Motel 6, Inc. v. No. 6 Motel Ltd.* (1981), 56 C.P.R. (2d) 44 at 58-59 (F.C.T.D.), which involved the U.S. company that operated some 300 motels in the U.S. but none in Canada and its unsuccessful challenge to a registered trademark by a Canadian motel operator on the basis that it had previously made its trademark known.
known in Canada for the purpose of determining confusion between the marks.\textsuperscript{119} Nevertheless, it can be appreciated that a foreign franchisor faces an uphill evidentiary battle no matter which ground of opposition it relies upon to reclaim a misappropriated trademark.

\textbf{b. Application by the Franchisor to Expunge the Registration in the Federal Court}

Similarly, the most relevant grounds on which the foreign franchisor may invalidate the registration are: (1) the registrant was not the person entitled to secure the registration because, as a result of the franchisor having made its trademark known in Canada prior to the registrant’s use of the trademark or filing of the application, the registrant’s trademark was confusing with the franchisor’s trademark; and (2) the registered trademark no longer distinguishes the registrant’s goods or services with which the trademark is used from those of the franchisor as a consequence of (1).

As discussed in Section I.C.2. above, it is possible for the registrant to rely on the defense under Section 17 of the CTMA to preserve its registration of the foreign franchisor’s trademark, i.e. the registration is incontestable \textit{vis-à-vis} expungement on the ground that the franchisor had previously made the trademark known in Canada after five years of registration, unless the registrant adopted the trademark in Canada with knowledge of the fact that the mark had previously been made known in Canada by the franchisor. Implicitly, the registrant’s knowledge of the franchisor’s prior use of the trademark in a foreign market and its knowing adoption of that trademark for use in Canada are insufficient to invalidate the registration.\textsuperscript{120} The trademark must also have been made known in Canada on the adoption date. Nevertheless, with solid evidence of the reputation in the franchisor’s trademark in Canada at the relevant time, the Federal Court would be hard-pressed to find that the registrant adopted the trademark in Canada with no knowledge of such reputation.

c. \textbf{Target Corporation v. Fairweather}

The current ongoing trademark dispute between Target Corporation and Fairweather, a Canadian clothing company, provides a timely example of the woes of a foreign trademark owner in entering into the Canadian market where a third party is already using and has registered a confusingly similar trademark.

Target does not have any stores in Canada and does not ship purchases into Canada; however, it plans to open 100 to 150 Target stores in Canada in 2013 and 2014. In a currently pending action in the Federal Court, Target seeks to expunge Fairweather’s registration for the trademark TARGET APPAREL on the basis that the TARGET trademark has been well known in Canada since at least the 1990s as a result of Canadians visiting Target’s U.S. stores and cross-border advertising. Target also seeks damages and a permanent injunction to restrain Fairweather from using the TARGET trade name or the bull’s-eye mark.

\textsuperscript{119} Recall in Section II.B.2.a.(i): in order for a trademark to be “made known” in Canada, it must be “well known”, i.e. known to a significant portion of the Canadian population.

\textsuperscript{120} \textit{Bousquet v. Barmish Inc.} (1991), 37 C.P.R. (3d) 516 at 528 (F.C.T.D.), aff’d (1993), 46 C.P.R. (3d) 510 (F.C.A.): “While the “pirating” of a foreign trademark appears reprehensible, I do not think that such conduct alone (while relevant in combination with other factors), is sufficient to ground expungement without sufficient proof of the express statutory grounds for invalidity.”
In conjunction, Target sought an interlocutory injunction to restrain Fairweather from operating a retail store in association with a trademark or trade name comprising TARGET or a bull’s-eye design and from using the word TARGET or a bull’s-eye design to direct public attention to its clothing store business. The Federal Court, in dismissing Target’s application, found that Target had not met the requirements for an interlocutory injunction. Specifically, the Court found that, although Target had a serious issue to be tried, it had not established that it would suffer irreparable harm as a result of damages to its “brand promise”. Since Target’s expert evidence of irreparable harm was provided by affidavit and was challenged in the course of the proceeding, the assessment of such evidence was best left for trial, where review of the expert’s qualifications and in-court testimony are present. The trial is scheduled for November 2011.

Target has twice attempted to cancel Fairweather’s TARGET APPAREL registration on the basis of non-use by way of cancellation proceedings in the Trademarks Office in 2002 and 2010. The earlier proceeding was appealed up to the Federal Court of Canada and was unsuccessful, while the latter is now ongoing. It will be interesting to see how Target fares in this current court proceeding.

III. CANCELLATION OF FEDERAL REGISTRATION AND ABANDONMENT OF TRADEMARK

A. U.S. Perspective

An added complication arises when the franchisor’s registration for its mark has been cancelled. As discussed in Section I.C. above, U.S. federal registration provides a nationwide priority date but only during the time the registration is in existence. Once that registration is cancelled -- whether by failure to file a statement of use, renewal, or by judicial or administrative proceeding -- use by a junior user after such cancellation is not hindered by constructive notice. Of course, actual notice, along with its potential ramifications, exists independent of the constructive notice doctrine.

In Action Temporary Servs., Inc. v. Labor Force, Inc., the senior user adopted and used the mark LABOR FORCE in 1970, and received a federal registration for the mark on July 1, 1975. On August 1, 1975, the junior user adopted the mark LABOR FORCE. In 1981, the senior user’s registration was cancelled for failure to file a Section 8 affidavit of continuing use. The senior user filed a new application in 1982, and the junior user filed an application thereafter. When the senior user’s application was published for opposition, the junior user filed a timely opposition and, in addition, amended its application to one for concurrent use, naming use in Texas and Tennessee as an exception to the senior user’s rights. The Trademark Trial and Appeal Board, after dismissing the opposition and instituting a concurrent use proceeding,

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121 See Target Brands, Inc. v. Fairweather Ltd., 2011 FC 758, which was released on June 23, 2011.
123 Typically, actual notice occurs in the form of a cease and desist or "infringement" letter to the alleged infringer, although informal oral notice may suffice. See McCARTHY §19:144; see also Polo Fashions, Inc. v. Extra Special Prods., Inc., 208 U.S.P.Q. 421 (S.D.N.Y. 1980) (finding that the registrant was entitled to damages and profits for the period subsequent to the defendant's actual notice, even when there was no statutory notice).
124 Id.
granted the senior user's motion for summary judgment, holding that the junior user could not be a "lawful use" within the meaning of Section 2(d) of the Lanham Act. The Federal Circuit, however, reversed the Board's finding and held that the junior user's use following the cancellation of the senior user's registration "was not subject to any former constructive notice effects of that registration." A strong dissent, agreeing with the Board, argued that "What had been an unlawful adoption when it occurred [and which continued for nearly six years] was still unlawful."

If the franchisor's registration has not been maintained by the applicable due date, the franchisor may still be able to preserve its registered rights as the applicable trademark regulations provide a six month "grace period" immediately following the expiration of the applicable deadline in which the registration may still be maintained upon submission of evidence of use and payment of additional fees. Unfortunately, after the expiration of the grace period, the registration will be cancelled and cannot be revived. In that event, the franchisor must determine the impact of the cancellation of its registration on its substantive trademark rights. This should start with an audit of the franchisor's trademark portfolio to determine, among other things, if there are any related registrations for variations of the cancelled mark (including design marks) that may arguably provide overlapping rights and protection. For example, although a franchisor's registration for its word mark may have been cancelled, it may own registrations for one or more design or composite marks that incorporate the word mark. Accordingly, if a hypothetical registration for the word mark ZIP PITY is cancelled, but the franchisor retains design marks that prominently feature the word ZIP PITY, these registrations are likely to prevent registrations of similar word marks and provide additional protection against confusingly similar uses by third parties. Such related registrations may provide the franchisor with at least some level of continued rights and, more importantly, preclude an argument of bona fide use and rights to register by a junior user.

In the event that the franchisor does not own any other relevant registrations, the franchisor will still retain, despite the cancellation, its common law rights in its zone of reputation. For a national franchisor, such as McDonalds, whose common law rights are likely coextensive with the national rights granted by a federal registration, its ability to protect its marks will not likely be meaningfully diminished by the cancellation. However, if the franchise is local or regional and therefore the mark subject to the cancelled registration only has a reputation within a limited area, the franchisor may be subject to intervening third party uses and may be limited in its ability to expand.

Upon discovering the cancellation of its federal registration, a franchisor will often desire to file a new application to register the mark subject to the cancelled registration. However, before doing so, the franchisor should conduct an investigation to determine if there are any intervening common law uses of the mark, particularly if a not insignificant time has elapsed between the cancellation and the franchisor's discovery of the cancellation. If the franchisor

125 Id. at 1566.

126 870 F.2d at 1567. Although not addressed specifically in Action Temporary Services, the junior user's use during the time the senior user's registration was in effect should not be considered when determining the parties' rights. Thus, on remand, the Board's focus should be on the parties' respective geographic rights based on the senior user's rights since 1970 and the junior user's rights since 1981, not 1975.

discovers such intervening uses, it may wish to consider filing a concurrent use application. In addition, third parties may have filed federal applications for confusingly similar marks after the cancellation of the franchisor’s registration. In this case, the franchisor should consider initiating opposition proceedings based on the prior use of its mark.

It is important to note that, if the franchisor’s federal trademark registration has expired or been cancelled, this information should be disclosed in Item 13 of the Franchise Disclosure Document. If the Document is not amended in a timely manner to disclose this information, this could be considered a material misrepresentation.

**B. Canadian Perspective**

The considerations above from the U.S. perspective, such as determination of the availability of a grace period for renewal and evaluation of whether other trademark registrations relating to the lapsed registration affords sufficient protection, are equally pertinent in Canada. Discussion in this Section focuses on issues concerning a franchisor’s abandonment of its trademark as a result of being absent from the Canadian market for a prolonged period of time.

Except where the trademark owner fails to renew the registration, abandonment of a registered trademark has no effect on the registration vis-à-vis the trademark register unless a third party initiates cancellation of the registration by way of Section 45 proceedings for non-use or an application to expunge the registration on the basis of abandonment under Section 18(1)(c) of the CTMA.

Importantly, similar to the U.S., the expungement of a trademark registration alone does not automatically lead to a total loss of trademark rights in Canada. Indeed, a franchisor can still have common-law rights and be entitled to trademark protection if it continues using its trademark. However, registered or not, a trademark may no longer have any force under the law once it is found to have been abandoned.

Abandonment of a trademark is ultimately a question of fact and requires the presence of two elements: (a) the trademark is no longer in use in Canada; and (b) the trademark owner has the intention to abandon the mark. As such, even minute continued use of the trademark negates an allegation of abandonment. Also, mere non-use of a trademark is not sufficient to substantiate abandonment if there is a satisfactory explanation for the non-use.

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129 As long as this use fall within the definition of “use” set out in Section 4 of the CTMA (see Section I.C.2.a.(ii) above). Recall that use of the trademark (registered or not) can be by an authorized licensee, since such use inures to the benefit of the owner under certain circumstances pursuant to Section 50 of the CTMA (see Section I.C.2.b. above).


Nevertheless, an intention to abandon the trademark can be inferred from a long period of disuse.\textsuperscript{132}

Even where a franchisor takes care to renew its trademark registration on a regular basis, the franchisor may risk abandoning its trademark if it has not used the trademark in Canada for a long time.\textsuperscript{133} The renewal may indicate the franchisor’s intention to maintain the registration; however, its intention to keep the trademark itself is demonstrated by actual use in association with some goods or services.\textsuperscript{134} In \textit{Cross-Canada Auto Body Supply (Windsor) Limited v. Hyundai Motor America},\textsuperscript{135} the Federal Court expunged a trademark registration after finding that the trademark had been abandoned. The applicants were re-sellers of car parts, including parts bearing the respondent’s trademarks. In response to the respondent’s trademark infringement action, the applicants sought to expunge the respondent’s registrations. On the issue of abandonment of one of the trademarks at issue, while the respondent had regularly renewed its registration and had not made a deliberate decision to abandon the trademark, the Court found that, because the respondent had not used the trademark for a long period of time and there was no evidence of a plan to use it, the respondent had abandoned the trademark. As a result, the registration was struck from the trademark register.\textsuperscript{136}

A recent development in Canadian jurisprudence suggests that continued presence on the Internet that is accessible to the Canadian public may assist a returning franchisor in maintaining its trademark rights, particularly with respect to services, notwithstanding having no physical presence in Canada for a significant period of time.

In \textit{TSA Stores, Inc. v. The Registrar of Trade-marks},\textsuperscript{137} TSA, the second largest sporting goods retailer in the world, was successful in appealing the Registrar’s decision to expunge four


\textsuperscript{133} The possibility that a trademark registration can be maintained by timely renewal even where the trademark registrant has ceased using the mark exists in Canada, but not in the United States. Unlike in the United States, trademark renewal in Canada does not require the submission of evidence of use in support of the renewal.


\textsuperscript{135} \textit{Supra} at note 122.

\textsuperscript{136} However, a franchisor who enjoys some residual reputation in the trademark despite having ceased using the mark may be able to prevent other confusing uses. As a result of the public continuing to associate the trademark with the franchisor, if a third party subsequently uses a similar trademark in a geographical area in which the reputation in the franchisor’s trademark remains, the use may result in a misrepresentation causing confusion in the public as to the source of the goods or services. In that case, the franchisor may be able to restrain such use through a passing-off action at common law and under Section 7 of the CTMA regardless of whether the franchisor plans to resume use of its trademark. The significance of residual reputation is demonstrated in \textit{Canadian Vapotred Ltd. v. Leonard} (1972), 6 C.P.R. (2d) 45 (Ont. Co. Ct.). The plaintiff in that case had purchased a manufacturing company and subsequently merged it with its own company. After the merger, the plaintiff ceased using the acquired company’s name. The defendant began operating a competing business under a confusingly similar name. Notwithstanding that there was no evidence that the plaintiff had any plans to resume the use of the acquired company’s name, the Ontario Court enjoined the defendant from using the confusing trade name on the basis that sufficient residual goodwill existed in the old company name, which warranted protection. It should be appreciated, however, that proving a protectable reputation in an abandoned trademark has evidentiary challenges and would only be possible where the mark enjoyed a strong reputation prior to its abandonment.

\textsuperscript{137} 2011 FC 273 (F.C.).
of its trade-mark registrations despite having closed all of its stores in Canada 10 years before the decision was rendered. TSA operated approximately 400 retail stores in the U.S. selling sporting and fitness equipment and a website that was accessible in Canada. It once operated six stores in Canada, which were closed in 2000. In 2006, a Section 45 proceeding was initiated against TSA for non-use of six trademarks registered in its name. In that proceeding, TSA conceded the expungement of two of the trademarks but argued for the maintenance of the remaining four registrations with respect to services specified therein. The Registrar held that use in Canada in association with retail store services does not require the operation of a physical retail store in Canada. The Registrar also found that TSA’s statements that the trademarks had been used in Canada with retail stores services via its website, which was regularly accessed from Canada, and its figures of online sales to Canadian customers through an affiliate program during the relevant time period may be sufficient to establish use of the trademarks as required by Section 45 of the CTMA. However, the Registrar found that excerpts of TSA’s website produced as evidence did not refer to TSA, therefore the use of the trademarks on the website was not by TSA or any proper licensees.

On appeal, in light of new evidence filed by TSA which addressed the ownership and licensing issues with respect to TSA’s website, the Federal Court focused in part on the issue of whether TSA’s display of the trademarks on its website constituted use of the trademarks in association with retail stores services. The Court found that, during the relevant time period, a large number of Canadians made use of the website (over 360,000 Canadians visited the website in each of 2005 and 2006, and over 210,000 Canadians visited the website in the first six months of 2007). In addition, the Court found that the “Help Me Choose Gear” and “Shoe Finder” services on the website provided a significant volume of information and guidance on a wide variety of products, including detailed descriptions of each product and instructions on identifying suitable equipment, selecting correct sizes and caring for the products. There was also an extensive glossary of specialized sportswear terminology on the website. The Court likened visiting these services on the website to visiting a bricks and mortar store and discussing these topics with a knowledgeable salesperson. As a result, there was evidence of use of the trademarks in Canada in the relevant time period.

Importantly, this decision provides a franchisor with web presence a wide leeway to preserve its trademark registrations and rights in Canada after a period of physical absence from the Canadian market, even in the case where Canadians could not otherwise make online purchases at the franchisor’s website. One may argue that the Court perhaps went too far to protect the trademark owner in this regard. Also, this decision runs somewhat counter to the established principle that in order for a trademark to be used in association with services, the trademark owner must perform its services in Canada, although none of these earlier cases involved trademark use with respect to services provided via websites. It will be interesting to see how Canadian jurisprudence in this regard develops as e-commerce continues to evolve and reinvent itself.

If the franchisor’s trademarks are cancelled or expunged after the franchisee has entered into the franchise agreement, the recourse available to the franchisee will depend on the particular circumstances, including whether the franchise agreement contemplates this possibility and provides the franchisor with the unilateral right to change its trademarks. In addition to the statutory remedies which may be available under existing provincial franchise legislation, a franchisee could bring an action for common law misrepresentation or breach or frustration of the contract.
IV. SELECTED INTERNATIONAL ISSUES

The focus of this paper has been the United States and Canada. In cases where a franchisor desires to expand its concept to other countries, a host of new issues must be considered. With respect to the franchisor's trademarks, trademark laws, and the rights associated with trademarks, vary greatly by country. Accordingly, when seeking to expand a franchise into another country, it is recommended that a franchisor consult with and retain knowledgeable local counsel who can conduct a local trademark search and advise of the local customs and law. In many countries, such as the European Community, trademark rights can only be acquired by registration. Therefore the party who registers a trademark first obtains priority to it, except in cases of "well known" marks or obvious bad faith.\textsuperscript{138} Failure to register a trademark in a foreign country can result in embarrassing and costly scenarios - a lesson learned by Nike during the 1992 Summer Olympics in Spain. Although Nike paid substantial sums to have Olympic athletes wear clothing bearing its mark (and was prepared to sell a significant amount of merchandise featuring its mark during the event), a Spanish court banned Nike from selling its apparel because the NIKE mark was registered to another company in Spain for sportswear.\textsuperscript{139} Accordingly, it is crucial to consult with local counsel in each of the franchisor's target countries as soon as possible to determine an international trademark filing and protection strategy.

V. CONCLUSION

Trademarks are one of the key cornerstones of franchising. Franchisors would do well to protect and maintain these valuable assets. Even where franchisors do so, they may face challenges posed by users of confusingly similar marks. Keeping abreast of these uses and investigating them as appropriate before reacting will go a long way towards implementing a successful enforcement strategy and avoiding a loss of valuable rights.


BIOGRAPHIES

Christopher P. Bussert is a partner in the law firm of Kilpatrick Townsend & Stockton LLP and is resident in its Atlanta office. Chris specializes in trademark, copyright, false advertising and franchise litigation and client counseling. He has spoken extensively on intellectual property and franchise topics for numerous organizations including the Practising Law Institute, the ABA Forum on Franchising, the International Franchise Association, the Law Education Institute, the International Trademark Association, the Association of Corporate Counsel, the Georgia Institute of Continuing Legal Education, the Houston Intellectual Property Association and the Minnesota State Bar Association. He has also lectured at the University of Georgia, Georgia State University College of Law and the University of Toledo College of Law on intellectual property subjects. He has also authored or co-authored a number of articles on intellectual property subjects published in various legal publications including The Trademark Reporter, The Franchise Law Journal and The Franchise Lawyer. He is also currently a member of the editorial board of The Intellectual Property Strategist and is the Editor-in-Chief of The Franchise Law Journal.

Jennifer Dolman is a partner in the Toronto office of Osler, Hoskin & Harcourt LLP where she has been practising commercial litigation since 1992. Broad commercial litigation practice with an emphasis on business critical franchise and distribution disputes for franchisors (including defending franchise class actions, enforcing terminations and dealing with franchise disclosure issues); intellectual property matters (trade-name, copyright, domain name disputes and misleading advertising); defamation (including Internet); privacy and employment. Expertise in the area of injunctions and other emergency applications to enforce restrictive covenants and protect confidential information. Experience includes compelling ISPs to take down offensive websites and to disclose personal information regarding anonymous senders of unlawful e-mails. Jennifer appears in the 2011 Canadian Legal Lexpert Directory as most frequently recommended for Franchising Law (Franchisor) - Toronto; Best Lawyers in Canada 2011 for Franchise Law; Who’s Who Legal: Canada 2010 for Franchise; and the International Who’s Who of Franchise Lawyers 2010 for Franchise. Jennifer has also recently been selected by Franchise Times Magazine as a 2011 Legal Eagle (first Canadian woman and litigator). Jennifer is actively involved in the ABA Forum on Franchising (sits on LADR Committee), the Canadian Franchise Association (CFA Planning Committee member for 2008 to 2011 Ontario Regional Legal Days), the Ontario Bar Association Franchise Law Section (Program Coordinator), and the International Franchise Association (Task Force member for the 2008 and 2009 Legal Symposia), and is a frequent speaker and writer on franchise related matters. Jennifer sits on the Editorial Board of LJN’s Franchising Business & Law Alert in which her co-authored articles on injunctions in the franchise context and franchise class action decisions have been published. Jennifer is also the co-author of Ontario’s Franchise Legislation-Lessons Learned in the First Decade and What’s Ahead for the Future in the Fall 2009 edition of the ABA’s Franchise Law Journal.