

## A Cautionary Tale of Two Restaurants: The Risk of Brand Development Before Launch

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On November 2, 2022, the Ontario Superior Court of Justice (Divisional Court) overturned an interlocutory injunction that had been granted to prohibit a restaurant group from using the term “Bombay Frankie” as a trademark in connection with the operation of several Indian restaurants.<sup>1</sup> Though the original motion court granted the injunction, the Divisional Court reaffirmed that (a) a mere application to register will not ground a claim of trademark infringement, and (b) certain “start-up” activities may not be enough to establish goodwill association with a name. The decision serves as a cautionary tale to hopeful franchises investing heavily in brand development prior to launching in the marketplace.

### Background

The Plaintiff, 2788610 Ontario Inc. (278), made an application to register the trademark “Bombay Frankies” in 2020 in anticipation of launching a franchise system of restaurants under that name.

The Defendants, the Bhagwani restaurant group (Bhagwani), subsequently filed a trademark application for the almost identical mark “Bombay Frankie” in 2021. That same year, it began operating restaurants under the Bombay Frankie name, purchased the domain name <bombay-frankie.com>, incorporated Bombay Frankie Inc., and used social media accounts with the “Bombay Frankie” name.

278 initially sought an interlocutory injunction against the Defendants to restrain them from using the trademark and trade name “Bombay Frankie” on the basis that their activities constituted trademark infringement and passing-off. When the motion was heard, 278 had not yet opened or advertised a restaurant under the name “Bombay Frankies.”

### The Motion Judge’s Decision

At first instance, the motion court (the Ontario Superior Court of Justice) granted 278’s injunction.<sup>2</sup> The motion judge applied the tri-part test for injunctions from *RJR-MacDonald*. The motion judge found that there was a serious issue to be tried, noting that 278’s claims raised the “novel issue” of whether rights in a trademark crystallize on the application or registration date.

# Cassels

The motion judge then found that 278 would suffer irreparable harm in the loss of advantage and goodwill if Bhagwani was allowed to continue operating under the “Bombay Frankie” name and that such damage could not be quantified. Finally, the motion judge found the balance of convenience favoured 278.

## The Appeal

Bhagwani appealed the granting of the interlocutory injunction. A panel of judges of the Divisional Court unanimously agreed that 278 had failed to satisfy the elements of the test for granting an interlocutory injunction. In overturning the injunction, the Court held the following:

- 1. No Registration or Goodwill, So No Serious Issue to Be Tried:** 278 had no registered trademark, but rather only an *application* to register the trademark “Bombay Frankies.” As such, the Divisional Court concluded that 278 had no claim for trademark infringement under ss. 19 and 20 of the *Trademarks Act* and there was no serious issue to be tried with respect to that claim. With respect to 278’s claim for passing-off, the Court stated that 278 did not have sufficient goodwill in the “Bombay Frankie’s” name to sustain a passing-off action. The Court found that 278’s “start-up activities” did not constitute goodwill as contemplated under the *Trademark Act*. More specifically, the Court explained that “goodwill attaches to a name or mark as it relates to the reputation or association with the goods or services provided by the owner of the mark.” The Court found that 278’s “start-up” activities, which included hiring a lawyer and a marketing firm, and discussing locations with landlords, did not constitute goodwill necessary to establish passing off. The Court acknowledged that there could be goodwill in the “Bombay Frankie’s” name from the perspective of potential franchisees, as opposed to the general public. However, no evidence was put forth to demonstrate such goodwill.
- 2. No Goodwill, No Irreparable Harm:** Given that 278 failed to show that it had any goodwill in the “Bombay Frankie’s” name, the Divisional Court concluded that 278 could not suffer irreparable harm arising from consumer confusion if the injunction was not granted and the Defendants were permitted to continue operating their restaurant business. The Court determined that though 278 would perhaps encounter confusion among landlords, this harm could be compensated monetarily.
- 3. Balance of Convenience Favoured Operational Restaurants:** The Divisional Court did not make a finding regarding the balance of convenience. However, Justice Nishikawa commented that this balance may have favoured Bhagwani due to the burden the Defendants would face in amending existing signage, websites, and social media accounts to comply with the injunction.

## Key Takeaways

# Cassels

This case serves as a cautionary tale for businesses hoping to secure rights in trademarks in Canada in advance of launching a franchise business. While filing trademark applications for proposed marks is highly recommended and offers advantages in terms of priority to registration, it does not confer a right to prevent others from using a confusingly similar trademark. A trademark must either be registered or used in Canada in order to give its owner the right to exclude other users. Competing businesses may enter the market under similar names while an application for registration of a mark is pending and before the mark is used. Certain “start-up” activities do not amount to trademark use that establishes goodwill. In short, up-front investment in trademark resources may not be defensible until trademarks are in use or registered.

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<sup>1</sup> 2788610 Ontario Inc. v. Bhagwani, 2022 ONSC 6098 (Div. Ct.).

<sup>2</sup> 2788610 Ontario Inc. v. Bhagwani et al., 2022 ONSC 905.

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