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Not Buying Deadwood: FCA Clarifies How a New Owner of a Trademark Can Justify Non-use in Section 45 Proceedings

In the recent decision *Centric Brands Holding LLC v Stikeman Elliott LLP*, the Federal Court of Appeal (FCA) clarified how a change in trademark ownership affects the analysis of whether "special circumstances" exist that excuse non-use of a mark in a section 45 proceeding. The FCA's decision should be welcomed by companies interested in purchasing or selling marks.

Section 45 Proceedings

Section 45 of the *Trademarks Act* is a summary procedure for removing "deadwood" from the register. Upon the request of a third party (or on the Registrar's own initiative), the Registrar gives notice under section 45 to the registered owner to demonstrate use of the mark in Canada in the three years immediately preceding the notice (the relevant period). The general rule is that non-use is penalized with expungement of the mark, unless the owner can demonstrate "special circumstances" that excuse non-use.

The well-established test for demonstrating the existence of special circumstances, which is typically difficult to meet, includes the following factors:

- the length of time the trademark has not been in use
- whether the non-use was due to circumstances beyond the registered owner's control
- whether there was an intention to resume use of the mark in the near term

Background

This decision stems from a request by the respondent, Stikeman, to institute a section 45 proceeding, and the resulting decision to expunge the trademark AVIREX.

The section 45 notice was issued to then-owner of the mark, KVZ International Ltd, 17 days prior to the assignment of the mark to Centric. Centric responded to the notice, indicating that while it had entered into a transaction to acquire the mark from

KVZ during the relevant period, it had only acquired the mark shortly after the date of notice and was unable to provide evidence of use during the relevant period. Citing insufficient evidence to demonstrate use of the mark, the Registrar expunged Centric's registration.

Centric appealed the Registrar's decision to the Federal Court on the basis that special circumstances existed to excuse non-use.

The Federal Court, per Southcott J, considered the jurisprudence involving section 45 proceedings where there had been a change of ownership of the trademark around the time of issue of a section 45 notice, which the FCA refers to as the "New Owner Jurisprudence." The Federal Court noted that when a trademark is recently assigned, the period of non-use for the purposes of determining special circumstances generally starts from the date the trademark was assigned. The rationale is that the new trademark owner will likely need some time to arrange for the use of the newly acquired mark, and the new owner may have limited access to records and other evidence from the prior owner.

The Federal Court observed that most of the New Owner Jurisprudence involved a change in ownership during the relevant period. As Centric did not formally acquire its mark until after the issuance of the section 45 notice, the assignment of the mark occurred outside the relevant period, such that the Federal Court considered the circumstances of non-use during the entire three-year relevant period rather than focusing on the period after Centric had agreed to acquire the mark.

On the facts of the non-use, Tom Cruise had notably worn an AVIREX jacket in the original *Top Gun* film, but it had been more than seven years since the original owner (KVZ International Ltd) had used the mark in Canada, and the non-use was due to business decisions rather than circumstances beyond KVZ's control.

The FCA's Decision

The FCA, per Locke JA, concluded that the Federal Court erred in refusing to apply the New Owner Jurisprudence on the basis that Centric had not closed the transaction to acquire the mark until after the section 45 notice was issued.

The FCA first endorsed the New Owner Jurisprudence, stating: "There is nothing in the text, the context or the purpose of section 45 that excludes the possibility that a recent arms' length acquisition of a trademark may constitute special circumstances such that the acquirer could be relieved of the obligation to provide evidence of use, or justify a period of non-

use, prior to the acquisition."

The FCA found that signing an agreement to acquire a trademark is sufficient to invoke the New Owner Jurisprudence, such that the Federal Court should have focused on the period starting from Centric's agreement to acquire the mark rather than on the entire three-year period. The FCA was not persuaded by the Federal Court's reasoning that Centric could have decided not to complete the transaction or could have negotiated better terms in view of the section 45 notice.

Turning to the facts of this case, when considering only the 3.5-month period after Centric agreed to acquire the mark (as opposed to the entire three-year period), the FCA found that special circumstances existed that excused the non-use and set aside the expungement of the mark. For example, the FCA stated that evidence of Centric's post-closing activities suggested there would have been use of the mark if that period (3.5 months) had not been so short.

Takeaways

First, as a matter of trademark law doctrine, this decision is the FCA's first express blessing of the New Owner Jurisprudence.

Second, this decision should be helpful for companies interested in purchasing or selling marks. Among other things, it reduces the risk of a third party successfully bringing a s. 45 proceeding in the period between a transaction being announced and the transaction closing. The FCA stated that it wanted to avoid the possibility of mischief that could result from a stricter reading of the New Owner Jurisprudence. News of an imminent trademark acquisition suggests the buyer plans to use the mark and does not consider it to be "deadwood." Consequently, under a narrow interpretation of the New Owner Jurisprudence, a third party could exploit delays between acquisition and closing by reviewing the list of acquired trademarks and requesting section 45 notices prior to the closing date in an effort to expunge the trademarks. The FCA's decision that entering into an agreement to acquire marks may be sufficient to trigger the New Owner Jurisprudence should discourage such efforts.

Finally, the FCA's statements that the acquisition of a trademark may itself indicate that the trademark is not "deadwood" may provide useful ammunition for new owners in responding to section 45 proceedings, even beyond the unusual timing of the acquisition in this specific case.