

1965
*June 16,
17, 18
Dec. 14

CHEERIO TOYS AND GAMES }
LIMITED (*Defendant*) }

APPELLANT;

AND

SAMUEL DUBINER (*Plaintiff*) RESPONDENT.

ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

Trade marks—Infringement—Injunction—YO-YO and BO-LO—Registered user agreement—Breach of agreement—Whether permitted user can infringe—Whether trade marks have become generic—Trade Marks Act, 1952-53 (Can.), c. 49, ss. 2(f), 4, 18, 20, 49.

The defendant company was incorporated in 1938 by the plaintiff. In 1955, the company assigned all but one of its trade marks to the plaintiff. Later in the same year, the plaintiff sold control of the company to one K and at the same time granted to the company a non-exclusive licence to use the trade marks. Subsequently, the company and the plaintiff applied for registration of the company as a

*PRESENT: Martland, Judson, Ritchie, Hall and Spence JJ.

registered user. This application was granted but subject to the condition that the company could use the trade marks only so long as the plaintiff was given free access to the premises of the company to inspect the finished wares. There was no mention of the right of inspection in the documents under which the control of the company had been sold and the trade marks assigned. The remaining trade mark Bo-Lo was subsequently dealt with in a similar manner and subject to the same conditions.

1965
CHEERIO
TOYS AND
GAMES LTD.
v.
DUBNER

In December 1962, the plaintiff demanded the right to inspect and this was refused. He then wrote a letter to the company purporting to terminate the registered user agreement. This was followed by a demand from his solicitor that the company refrain from further use of the trade marks. Proceedings with the registrar were then commenced to cancel the company's registered user licence under s. 49(10)(a) of the *Trade Marks Act*. This application was still pending when the plaintiff brought the present action claiming damages for infringement and an injunction restraining the defendant company from further infringement. The Exchequer Court maintained the action for infringement and rejected the counter-claim of the defendant for the expungement of certain trade marks. In this Court the defendant limited its appeal to two trade marks Yo-Yo and Bo-Lo. The plaintiff cross-appealed in respect of trade marks containing the word "Cheerio" which the trial judge held to be invalid.

Held (Judson J. dissenting): The appeal and the cross-appeal should be dismissed.

Per Martland, Ritchie, Hall and Spence JJ.: There were no reasons to disturb the finding of the trial judge, supported by the evidence, that the defendant had breached its registered user agreement by refusing access to the plaintiff.

All the documents must be considered as part of the agreement between the parties and, therefore, the limitation on the registered user contained in the application to the registrar was a limitation enforceable on the demand of the plaintiff. The words "in accordance with the terms of his registration as such" in s. 49(2) of the Act applied directly to the limitation in the application for registration as the registered user, and this application was part of the agreement between the parties. Between the immediate parties this was simply a matter of contract and, once the application for a registered user was found to be part of the contract, then that application as a contract could be enforced as any other contract, and the plaintiff could take steps to cancel it for breach of its provisions. As between the defendant and the plaintiff the right to use the trade marks was governed by the condition of the licence and when the defendant breached the registered user agreement it forfeited whatever rights it had to use the trade marks and became an infringer, if the trade marks were valid. No rights subsisted under the agreement transferring control of the company, because that agreement and the joint application to the registrar were indivisible as part and parcel of the transaction.

The argument that the trade marks were invalid because the words Yo-Yo and Bo-Lo were generic terms which could not be appropriated as a trade mark, could not be upheld. Since it was the plaintiff's whole case that the licence to use the trade marks had been cancelled by his solicitor's letter, the plaintiff could not invoke estoppel against the defendant on the basis of the licence after the licence had been

1965

CHEERIO
TOYS AND
GAMES LTD.

v.

DUBINER

terminated. However, the defendant company, having assigned the trade marks to the plaintiff, could not derogate from its own grants and was, therefore estopped as between itself and the plaintiff from disputing the validity of the trade marks.

As a result of the "Cheerio" marks having been assigned to the plaintiff and having been the subject of the licence back from the plaintiff to the defendant, it appeared that whatever the word "Cheerio" appeared to designate or distinguish, it certainly did not distinguish the wares of the plaintiff from those of others and, consequently not being distinctive, was invalid. The Court would not be justified in writing into the contract of assignment any covenant that the defendant should change its corporate name. That covenant having been omitted, then the result that the word "Cheerio" was invalid was inevitable.

Per Judson J., *dissenting*: The trial judge was in error in holding that the company was no longer a permitted user of the trade marks. According to s. 49(10) of the Act, the registration can be cancelled only by the registrar or by the Exchequer Court. There is no provision for its cancellation merely by a notice from one party to the other. If the application for the registered user is regarded as an agreement then the mere cancellation of such agreement would have to be followed by a cancellation of the registration. The rights specified in s. 49(2) and (3) of the Act flow from the registration and continue as long as the registration subsists. There can be no infringement as long as the registration subsists.

The trial judge was in error in not expunging the mark Yo-Yo. The evidence strongly supports the submission that the word Yo-Yo at the present time means the article itself. No buyer at the present day could possibly associate that word with the goods of a particular trader or think it distinguishes the goods of one person from another. The Act makes it clear that the appropriate time of examination and the propriety of a trade mark position on the register under s. 18(1)(b) is the time of the proceedings. This is a straight question of fact and it matters not how the lack of distinctiveness is brought about. Any other result would give the proprietor of a so-called trade mark a perpetual monopoly over the sale of the article even when the mark is in no way distinctive of the wares of the owner.

Marques de commerce—Usurpation—Injonction—YO-YO et BO-LO—Usager inscrit—Violation de l'entente—Un usager inscrit peut-il être coupable d'usurpation—Les marques de commerce sont-elles devenues génériques—Loi sur les Marques de Commerce, 1952-53 (Can.), c. 49, arts. 2(f), 4, 18, 20, 49.

En 1938, la compagnie défenderesse fut incorporée par le demandeur. En 1955, la compagnie a transféré au demandeur toutes ses marques de commerce à l'exception d'une. Plus tard dans la même année, le demandeur a vendu le contrôle de la compagnie à un nommé K et en même temps a accordé à la compagnie une licence non exclusive pour se servir des marques de commerce. Subséquemment, la compagnie et le demandeur se portèrent demandeurs en vue de l'inscription de la compagnie comme usager inscrit. Cette demande fut accordée mais sujette à la condition que la compagnie pourrait se servir des marques de commerce seulement en autant que le demandeur aurait libre entrée sur la propriété de la compagnie pour inspecter les marchandises finies. Les documents, en vertu desquels le contrôle de la compagnie avait été vendu et les marques de commerce transférées, ne

faisaient pas mention de ce droit d'inspection. L'autre marque de commerce Bo-Lo a été le sujet du même traitement et des mêmes conditions.

En décembre 1962, le droit d'inspection a été refusé au demandeur. Il a alors écrit une lettre à la compagnie dans le but de mettre fin à l'entente créant l'usage inscrit. Cette lettre a été suivie d'une demande par les avocats du demandeur que la compagnie s'abstienne de tout usage des marques de commerce. Des procédures devant le registraire furent instituées pour annuler la licence de la compagnie en vertu de l'art. 49(10)(a) de la *Loi sur les Marques de Commerce*. Cette demande n'avait pas encore été disposée lorsque le demandeur a institué la présente action pour réclamer des dommages pour usurpation et une injonction pour mettre fin à toute usurpation additionnelle de la compagnie. La Cour de l'Échiquier a maintenu l'action pour usurpation et a rejeté la demande reconventionnelle de la défenderesse pour faire radier certaines marques de commerce. Devant cette Cour la défenderesse a limité son appel à deux marques de commerce—Yo-Yo et Bo-Lo. Le demandeur a porté contre-appel en regard des marques de commerce contenant le mot «Cheerio» que le juge au procès avait déclarées invalides.

Arrêt: L'appel et le contre-appel doivent être rejetés, le Juge Judson étant dissident.

Les Juges Martland, Ritchie, Hall et Spence: Il n'y avait aucun motif pour changer le verdict du juge au procès, supporté par la preuve, que la compagnie avait violé son entente d'usager inscrit en refusant l'entrée au demandeur.

Tous les documents doivent être considérés comme faisant partie de l'entente entre les parties et, en conséquence, les restrictions imposées à l'usager inscrit contenues dans la demande au registraire étaient des restrictions exécutoires à la demande du demandeur. Les mots «selon les termes de son enregistrement à ce titre» dans l'art. 49(2) de la *Loi* s'appliquent directement à la restriction dans la demande en vue de l'inscription comme usager inscrit, et cette demande faisait partie de l'entente entre les parties. Entre les parties immédiates, ceci était simplement une question de contrat et, une fois que la demande pour l'inscription d'un usager inscrit se trouvait à faire partie du contrat, la demande comme contrat pouvait être mise en vigueur comme tout autre contrat, et le demandeur pouvait prendre les moyens de la faire annuler pour violation de ses dispositions. Entre la défenderesse et le demandeur, le droit de se servir des marques de commerce était gouverné par la condition dans la licence, et lorsque la défenderesse a violé l'entente par laquelle elle était devenue usager inscrit, elle a perdu tous les droits qu'elle pouvait avoir de se servir des marques de commerce et est devenue une usurpatrice, si les marques de commerce étaient valides. Il ne subsistait aucun droit en vertu de l'entente transférant le contrôle de la compagnie, parce que cette entente et la demande conjointe au registraire étaient indivisibles comme faisant partie intégrante de la transaction.

La proposition que les marques de commerce étaient invalides parce que les mots Yo-Yo et Bo-Lo étaient des termes génériques qui ne pouvaient pas être employés comme marque de commerce n'était pas soutenable. Puisque toute la cause du demandeur reposait sur le fait que la licence pour se servir des marques de commerce avait été annulée par la lettre de l'avocat, le demandeur ne pouvait pas opposer

1965

CHEERIO
TOYS AND
GAMES LTD.
v.
DUBINER

1965
 }
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER

une fin de non-recevoir à la défenderesse sur la base de la licence après que la licence avait été terminée. Cependant, la compagnie défenderesse, ayant transféré les marques de commerce au demandeur, ne pouvait pas porter atteinte à sa propre cession et était alors empêchée de mettre en dispute entre elle et le demandeur la validité des marques de commerce.

Comme résultat du fait que les marques «Cheerio» avaient été transférées au demandeur et avaient été le sujet d'une licence du demandeur à la défenderesse, il semble que quoi que ce soit que le mot «Cheerio» semble désigner ou distinguer, il ne distingue certainement pas les marchandises du demandeur de celles des autres et, conséquemment, n'étant pas distinctif, était invalide. La Cour ne serait pas justifiée d'écrire dans le contrat transférant les marques une clause à l'effet que la défenderesse devrait changer son nom de corporation. Cette clause ayant été omise, le résultat était inévitable que le mot «Cheerio» était invalide.

Le Juge Judson, dissident: Le juge au procès a erré en adjugeant que la défenderesse n'était plus un usager inscrit des marques de commerce. Selon l'art. 49(10) de la Loi, l'enregistrement comme usager inscrit ne peut être annulé que seulement par le registraire ou par la Cour de l'Échiquier. Il n'y a aucune disposition pour l'annuler simplement par un avis d'une des parties à l'autre. Si la demande pour inscrire comme usager inscrit est considérée comme un contrat, alors la seule annulation de ce contrat doit être suivie d'une annulation de l'enregistrement. Les droits spécifiés dans l'art. 49(2) et (3) de la Loi découlent de l'enregistrement et continuent aussi longtemps que l'enregistrement subsiste. Il ne peut y avoir aucune usurpation aussi longtemps que l'enregistrement subsiste.

Le juge au procès a erré en ne radiant pas la marque Yo-Yo. La preuve supporte fortement l'argument que le mot Yo-Yo signifie présentement l'article lui-même. Aucun acheteur aujourd'hui ne pourrait possiblement associer ce mot avec les marchandises d'un marchand particulier ou penser qu'il est distinctif des marchandises d'une personne. La Loi est claire que le moment opportun pour faire cet examen en vertu de l'art. 18(1)(b) est l'époque où sont entamées les procédures. Ceci est une simple question de fait et il n'importe pas de savoir comment ce manque de caractère distinctif a été soulevé. Tout autre résultat donnerait au propriétaire de la marque de commerce un monopole perpétuel sur la vente de l'article même lorsque la marque n'est d'aucune façon distinctive de la marchandise du propriétaire.

APPEL et CONTRE-APPEL d'un jugement du Juge Noël de la Cour de l'Échiquier de Canada¹. Appel et contre-appel rejetés, le Juge Judson étant dissident.

APPEAL and CROSS-APPEAL from a judgment of Noël J. of the Exchequer Court of Canada¹. Appeal and cross-appeal dismissed, Judson J. dissenting.

Gordon F. Henderson, Q.C., and David Watson, for the defendant, appellant.

¹[1965] 1 Ex. C.R. 524.

Donald F. Sim, Q.C., and *W. F. Green*, for the plaintiff,
respondent.

1965
}
CHEERIO
TOYS AND
GAMES LTD.
v.
DUBINER

The judgment of Martland, Ritchie, Hall and Spence JJ.
was delivered by

HALL J.:—The respondent brought action against the appellant alleging infringement of certain trade marks registered in his name with the Registrar of Trade Marks for Canada. Some 23 trade marks were involved and dealt with by Noël J. in the Exchequer Court¹, but in this Court the appellant limited the appeal to two trade marks—Yo-Yo and Bo-Lo. The respondent has cross-appealed in respect of trade marks containing the word “Cheerio” which Noël J. held to be invalid, but in this Court abandoned his claim to the trade mark “Beginners”.

The history of the transactions leading to the litigation is shortly as follows. The appellant company was incorporated by the respondent Dubiner on July 6, 1938. He continued to operate the company until August 17, 1955, when by an agreement in writing one A. Krangle acquired 75 per cent of the issued shares in the company and all the issued shares in another company called Dulev Plastics Ltd. from Dubiner and Dubiner’s wife Betty. One A. C. Gallo was the owner of the remaining 25 per cent of the shares in the appellant company. He continued as owner of these shares.

However, prior to this transaction, the appellant company had, on March 15, 1955, assigned to Dubiner all the trade marks in issue in this action excepting Bo-Lo, (Exhibit 7). Bo-Lo was subsequently assigned to Dubiner on April 11, 1957, (Exhibit 8). Both assignments were identical in language except that the assignment of March 15, 1955, covered a number of trade marks whereas that of April 11, 1957, covered Bo-lo only. The grant clause in each assignment reads as follows:

FOR VALUABLE CONSIDERATION hereby acknowledged to have been received by it, CHEERIO TOYS & GAMES LIMITED, of the City of Toronto, and Province of Ontario, the Transferor, has agreed to transfer and doth hereby transfer to SAMUEL DUBINER of P.O.B. 35, Bnei Beraq, Israel, all of its right, title and interest in and to the Trade Marks hereinafter set forth and registered in the Trade Marks Office of Canada in the name of the Transferor as follows, namely:

The agreement of August 17, 1955, contained clauses reading:

¹ [1965] 1 Ex. C.R. 524.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

8. Samuel Dubiner doth hereby grant to Cheerio a non-exclusive licence to use the trade marks, patents, industrial designs and copy rights hereinbefore referred to.

9. In consideration of the granting of the aforesaid non-exclusive licence and Samuel Dubiner's agreement to reveal to Cheerio the systems of marketing and his knowledge in connection therewith from time to time as requested by Cheerio, and his agreement to assist Cheerio from time to time from Israel, Cheerio doth hereby covenant and agree to pay to Dubiner in each year a sum equal to five per centum (5%) of the sales price (excluding sales tax) of all bandalore tops sold by Cheerio in such year, and Cheerio doth further covenant and agree to pay to Samuel Dubiner's mother the sum of \$12.00 per week in each and every week so long as she lives.

On August 31, 1955, Dubiner and the appellant company applied to the Registrar of Trade Marks to register the company as a registered user of the relevant trade marks (other than Bo-Lo) under s. 49 of the *Trade Marks Act*, c. 49, 1-2 Eliz. II, which reads in part:

49. (1) A person other than the owner of a registered trade mark may be registered as a registered user thereof for all or any of the wares or services for which it is registered.

(2) The use of a registered trade mark by a registered user thereof in accordance with the terms of his registration as such in association with wares or services manufactured, sold, leased, hired or performed by him, or the use of a proposed trade mark as provided in subsection (2) of section 39 by a person approved as a registered user thereof, is in this section referred to as the "permitted use" of the trade mark.

On March 9, 1956, the Registrar notified Mr. Leon Arthurs, a patent and trade mark attorney who was acting for both parties in submitting the application of August 31, 1955, that the appellant company had been registered as a registered user in the form following:

September 14, 1955—CHEERIO TOYS & GAMES LIMITED, 35 Hanna Avenue, Toronto, Ontario is hereby registered as a Registered User of the trade mark registered under No. _____, in respect of the wares in association with which the trade mark is now registered. The Registered User is the former owner of the trade mark. The Registered User is to use the trade mark only in association with wares meeting the standards of quality and efficiency established by it while it was the owner of the trade mark, *and only so long as the Registered Owner is given free access to the premises of the Registered User to inspect the finished wares and finds them in compliance with the aforesaid standards.* The permitted use is without definite period.

(The italics are mine.)

The trade mark Bo-Lo was subsequently dealt with in a similar manner and subject to the same conditions on May 28, 1957. Henceforth, no distinction need be made in regard to Bo-Lo.

The appellant company continued to operate as a "registered user" of the relevant trade marks. Gallo, who owned 25 per cent of the issued shares in the appellant company, had been associated with the respondent from the time the company was incorporated in 1938. When Krangle acquired control in 1955 under the agreement of August 17, 1955, Gallo joined the company as an employee and as a watchdog for the respondent. Difficulties arose between Krangle and Gallo which eventually resulted in Gallo being dismissed in June of 1962.

Throughout the period 1955 to 1962, the respondent was living in Israel. He came to Canada in December 1962 to try to settle the differences between Krangle and Gallo. The parties met on several occasions, the last meeting being on December 28, 1962.

The learned trial judge summarized the events of December 27, and the final meeting on December 28, 1962, as follows:

A number of meetings had already been held between them when on December 27, 1962, a meeting was arranged by the plaintiff and Krangle over the telephone for the next day in Krangle's office located in the premises of the defendant company at 11 Church Street, Toronto. During this conversation, Gallo entered Dubiner's room and the latter interrupted his phone call to ask Gallo the time of their appointment at the television station the next morning, for the purpose of looking at a film which Krangle erroneously took to be one produced for the purpose of selling yo-yos and bo-los but which, in fact, had nothing to do with the company's business at all as it dealt with Israeli art. This matter is mentioned merely because the meeting which took place the next day, at the defendant's premises at 11 Church Street, Toronto, would have started off on this misunderstanding with an accusation by Krangle that both Dubiner and Gallo were planning to have a television film made dealing with yo-yo return tops in competition with his business, which, however, Dubiner hastened to deny and explain. Although Krangle claims that the matter of the film script came up at the end of the meeting only, there is no question that the discussions which took place at this meeting were carried out in an atmosphere of tension and anger largely as a result of the television scripts but also because of Gallo's claims and lasted an hour, dealing chiefly with the latter's demand for salary and a share in profits from the year 1956 on which the parties could, however, not agree on and it was at this stage when it appeared that nothing more could be said that the plaintiff, as he was walking towards the door, turned to Krangle and said: "Well Albert, now I want to go into your stock room and examine the quality of your merchandise," to which Krangle replied "Sam, I won't let you in the back, I understand you have been at the T.V. Station and you have never inspected my wares before. I think there is more to this and you had better see my lawyer."

Krangle did nothing further and on January 8, 1963, the respondent sent the appellant a letter as follows:

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

By the terms of the registered user agreement between myself and Cheerio Toys and Games Limited, dated Toronto, the 31st day of August, 1955, Cheerio Toys and Games Limited is required to give me full access to the premises of the registered user, to inspect the finished wares, to ascertain that the quality standard set by me are maintained.

On Friday December 28th, 1962 I was denied access to these facilities by you. This is to advise you that without prejudice to all other rights and causes of action which I may have against you, I do hereby terminate the registered user agreement as of December 28th, 1962.

This letter was not answered nor did Krangle get in touch with the respondent.

On January 14, 1963, the respondent had his solicitors write the appellant company as follows:

Cheerio Toys & Games Limited,
 11 Church Street,
 Toronto, Ontario.

Attention: A. Krangle, Esq.

Dear Sirs:

We act for Samuel Dubiner, the owner of certain trade marks under which you have, prior to December 28th, 1962, been operating as a registered user.

This registered user agreement has been terminated by Mr. Dubiner and we now request without prejudice to the other rights which Mr. Dubiner may have against you, your written undertaking to refrain from further use of any of the marks in question in respect of the wares for which they are registered and your undertaking to deliver existing stock bearing the trade marks to Mr. Dubiner or your written assurance that the trade marks will be removed from such stock.

If this undertaking is not received by January 21st, 1963, we shall take the necessary steps to protect our client's position without further notice to you.

Yours very truly,

McCarthy & McCarthy,
 per Donald F. Sim.

On the same day, the respondent's solicitors instituted proceedings with the Registrar under s. 49(10) of the Act to cancel the appellant's registered user licence. This proceeding was still pending when, on March 13, 1963, the respondent, not having received the undertaking asked for in the solicitors' letter of January 14, brought this action

claiming damages for infringement and an injunction restraining the appellant company from further infringement.

The learned trial judge found as follows regarding the events of December 27 and 28, 1962:

Now, the evidence regarding what took place at the premises of the defendant on December 28, 1962, is somewhat contradictory, Krangle contending that he did not refuse access but merely referred the plaintiff to his lawyer as he thought that there was more to the situation than a mere wish to inspect the defendant's wares for quality, that Dubiner had never inspected the wares before, and that if he had really wanted to inspect he could have done so on the above date in his office where the discussions took place and where stock comprising several samples of each item of merchandise was kept up to date.

This, however, is not entirely true as it appears from the evidence that Dubiner had carried out some sort of inspection of wares of the defendant on each of his visits to Toronto and in one case, according to a witness produced by the defendant, became quite mad with Krangle because he was not satisfied with the quality of some of the tops. Furthermore, the latter did refuse to allow Dubiner to go into the back of the premises on the relevant date and, therefore, in my opinion, did not give him free access as he was obliged to under his registered user agreement and registration. As for the display of wares in Krangle's office, some of the wares were missing and, at any event, a proper and satisfactory spot check could not be made by Dubiner from such a selection, the latter being entitled to free access for inspection which, in my opinion, could not be restricted to one area only of the defendant's premises.

Furthermore, although the letters sent by Dubiner and his solicitors, as we have seen, closed the door to any possibility of allowing Krangle to comply with the obligation to give free access, there is no evidence that the latter, through his lawyer or personally attempted in any manner after December 28, 1962, to comply with same and I, therefore, must of necessity find that the defendant has breached its registered user agreement.

These findings are fully supported by the evidence and I see no reason to disturb them.

The appellant company had based its defence and counterclaim on numerous grounds but in this Court relied on three grounds only, as follows:

- (1) The appellant was a permitted user under the *Trade Marks Act* by entry on the Register and therefore could not infringe.
- (2) The appellant was licensed and therefore did not infringe.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

(3) Yo-Yo and Bo-Lo were generic terms which cannot be appropriated as a trade mark and therefore the trade marks were invalid.

It was Mr. Henderson's submission that the *Trade Marks Act* of 1953, for the first time in Canada permitted an assignment of the right to use a trade mark without the assignment of the goodwill, i.e., the separation of the identity of the user of the mark from the ownership thereof. It was the appellant's argument, however, that this statutory provision did not change the basic law of contract in any way and that the contract, in this case the agreement of August 17, 1955, remained fully in effect independently of the registration of the "registered user" agreement. It should be noted that the condition upon which the respondent relied was contained in the so-called "registered user" agreement and not in the so-called "main agreement" of August 17, 1955.

Noël J. found:

The assignment of the trade marks from Cheerio Toys and Games Limited to Dubiner and the user rights back to the defendant company must, I believe, all be read together and if this is done, it appears that as a result of the above transactions there has subsisted rights in two persons to the use of confusing trade marks and the evidence disclosing that those rights have been concurrently exercised by such persons the trade mark CHEERIO would have, therefore, become non-distinctive within the meaning of s. 47(2) of the Trade Marks Act which reads as follows:

This portion refers particularly to the Cheerio marks but the finding that the whole was one transaction is equally applicable to the Yo-Yo and Bo-Lo marks. I am also of opinion that that finding is in accordance with the evidence.

Dubiner swore that to the best of his memory all documents were executed at the same time. Moreover, the respondent pleaded in para. (4) of the Statement of Claim:

On or about the 31st of August 1955, the Plaintiff and the Defendant entered into an agreement being an application for registration of the Defendant as a registered user of the trade marks identified . . . The said agreement provided, inter alia, as follows: (The limitations are then recited).

And in the Statement of Defence, the appellant in para. (4) admitted the allegations contained in para. (4) of the

Statement of Claim. I am, therefore, in agreement with the learned Exchequer Court judge when he found that all the documents must be considered as part of the agreement between the parties and that, therefore, the limitation on the registered user contained in the application to the Registrar was a limitation enforceable on the demand of the respondent.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

The appellant submits that it is the registered user so named and it could not be an infringer as long as it remained on the register of Trade Marks. Section 20 of the *Trade Marks Act* provides that the right of the owner of a registered trade mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under the Act who sells, distributes or advertises wares or services under the mark.

Section 49(2) of the statute provides that the use of a registered trade mark by a registered user thereof *in accordance with the terms of his registration as such* (the italics are mine) is "the permitted use" of the trade mark under this section. The appellant attempted to limit the words "in accordance with the terms of the registered use" to that referred to in s. 4(1), (2) and (3), but Noël J. held that the words applied directly to the limitation in the application for registration as the registered user, and that this application was part of the agreement between the parties. And I can see no other result possible.

It must be remembered that Mr. Arthurs, in his letter to the Registrar in which he forwarded the application for a registered user, said:

In answer to your request for a copy of the agreement between the parties, please be advised that the entire agreement is constituted by the registered user application which was filed.

As I have said, Mr. Arthurs acted for both parties on the application.

The appellant argued very strenuously that the only method by which a registered user could be terminated was by proceeding under s. 49(10) of the statute, and that until it had been so terminated the registered user could not be an infringer. And further, that by subs. (12) the Registrar

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

upon considering such an application was required to give every person affected a notice and therefore that had such an application been taken by the respondent Dubiner then the appellant company would have been notified and had an opportunity to make such representations as it deemed fit to the Registrar and would only have been an infringer if such representations had failed to convince the Registrar and he had cancelled the registered user. That might well be so between either of those litigants and a third party, i.e., an application by the AB company to cancel the registered user on the ground that it was contra public interest, etc. But between the immediate parties this is simply a matter of contract and once the application for a registered user is found to be part of the contract then that application as a contract may be enforced as any other contract and the respondent Dubiner may take steps to cancel it for breach of its provisions. It was not strenuously argued before us that there was no reasonable notice, and, in fact, the appellant company could have put the respondent in a very awkward position simply by notifying him on December 29, or even possibly on January 8, 1963, that he was free to make such inspection as he desired.

The appellant argued that since at the time the action was commenced it was a "registered user" on the registry of Trade Marks, it could not be an infringer while it remained on the register as a "registered user", and relied on s. 49(3) of the Act, which reads:

(3) The permitted use of a trade mark has the same effect for all purposes of this Act as a use thereof by the registered owner.

but this overlooks that the permitted use under this section is *use in accordance with the terms of the registration*.

It argued further that until it had actually been struck from the register as a "registered user" in accordance with s. 49(10), it continued to be a "registered user" and as such could not be an infringer.

Whatever validity that argument might have as between a "registered user" and a third party, and I express no opinion on the point, I am of opinion that as between the appellant and the respondent the right to use the trade

marks Yo-Yo and Bo-Lo was governed by the condition of the licence quoted above, and when, as found by the learned trial judge, that the appellant breached the "registered user" agreement by refusing the respondent "free access to the premises of the registered user to inspect the finished wares . . ." it forfeited whatever rights it had to use the said trade marks and after receipt of the solicitor's letter of January 14, 1963, had no right to persist in using these trade marks and it was in consequence an infringer, if in fact the trade marks were valid.

No rights subsisted under the so-called "main agreement" of August 17, 1955, because that agreement and the joint application to the Registrar to register the appellant as a "registered user" were indivisible as part and parcel of one transaction, and I agree with Noël J.'s finding in this respect.

I therefore, turn to the appellant's third proposition, i.e., that Yo-Yo and Bo-Lo are generic terms which cannot be appropriated as a trade mark and the trade marks are, therefore, invalid.

Section 18(1) of the *Trade Marks Act* provides:

18. (1) The registration of a trade mark is invalid if
- (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; or
 - (c) the trade mark has been abandoned;
- and subject to section 17, it is invalid if the applicant for registration was not the person entitled to secure the registration.

The appellant in its pleadings pleads in para. 20:

The defendant alleges and the fact is that the word Yo-Yo is used in Canada as and is the generic name used to describe and identify a particular type of top and as such does not indicate the wares of any particular person.

It repeats the same allegation as to the word Bo-Lo in para. 21.

Evidence was not adduced as to the registrability of the trade marks at the date of registration in reference to s. 18(1)(a) and the argument before the Exchequer Court judge and in this Court was restricted as to whether the

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 ———
 Hall J.
 ———

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

trade marks were or were not distinctive at the time proceedings bringing their validity into question were commenced, i.e., at the commencement of this action on March 13, 1963.

During the argument, the point was raised that the submission that the trade marks were invalid could not be made by the registered user thereof as he held a licence from the owner of the trade marks and to deny the validity of the trade marks would be to deny his licence. However, since it was the respondent's whole case that the licence to use the trade marks had been cancelled by the letter of December 28, 1962, the respondent cannot invoke estoppel against the appellant on the basis of the licence after the licence had been terminated. The law in this regard was clearly stated by Eve J. in *Staffordshire and Worcestershire Canal Navigation v. Bradley*¹, when he said at p. 105:

I think the answer to that is that, although the licensee cannot be heard to dispute the title of the licensor, so long as the relationship of licensee and licensor continues, there is no continuing disability affecting the licensee when the relationship has determined, and from that time he is as competent to assert his rights as any one else.

The respondent also took the position that the appellant company, having assigned the trade mark Yo-Yo to the respondent by the agreement of March 15, 1955, and similarly having assigned the trade mark Bo-Lo to the respondent by the agreement of April 11, 1957, could not in this action assert that the trade marks or either of them were invalid. This position, in my opinion, was well taken. The appellant company, having assigned the trade marks to Dubiner, cannot derogate from its own grants and is, therefore, estopped as between itself and Dubiner from disputing the validity of the trade marks; *Walton v. Lavater*², and the judgment of Kekewich J. in *Franklin Hocking and Co. Ltd. v. Franklin Hocking*³.

Much reliance was placed upon the decision in the United States Circuit Court of Appeals in *Donald F. Duncan Inc. v. Royal Tops Manufacturing Company Inc. et*

¹ [1912] 1 Ch. 91, 106 L.T. 215.

² (1860), 8 C.B.N.S. 162 at 180, 186-7, 3 L.T. 272, 141 E.R. 1127.

³ (1887), 4 R.P.C. 255 at 259.

*al.*¹, decided in March of this year. That case was decided on a mass of factual evidence adduced at the trial substantially different from the facts in evidence here, but a more important distinction is that in that case the parties challenging the validity of the trade mark were not estopped from doing so.

1965
 }
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

Having concluded that the appellant is estopped from disputing the validity of the trade marks assigned by it to the respondent, it is not necessary to go into the question as to whether the trade marks or either of them were distinctive at the date these proceedings were instituted.

I turn next to the cross-appeal as to the various Cheerio marks.

Counsel for the respondent and cross-appellant abandoned any claim as to the validity of the trade mark "Beginners" and it need not be further considered. The Cheerio marks had been assigned by Cheerio Toys and Games Ltd. to Dubiner and had been the subject of the licence back from Dubiner to the Cheerio Company. The learned Exchequer Court judge held that the separation of the marks from the company by the assignment to Dubiner had resulted in the fact that Dubiner was the owner of the trade marks and yet the company was entitled to carry on under its name "Cheerio Toys and Games Ltd.", and said:

As a result of this situation it therefore appears that whatever the word CHEERIO now appears to designate or distinguish, it certainly does not distinguish the wares of the plaintiff from those of others and, consequently not being distinctive, is invalid. The same applies to CHEERIO Yo-Yo, CHEERIO DESIGN, CHEERIO BEGINNER, CHEERIO TOURNAMENT and CHEERIO CHAMPION.

Counsel for the respondent as cross-appellant submitted that it was the duty of the Court to ascertain the true intention of the parties at the time of the transactions and if such true intention was to give to the respondent Dubiner the property in the Cheerio trade marks then it should enforce that intention by declaring the validity of the trade marks despite the fact that the assignor company was not required in the assignment to Dubiner to alter its corporate name as the parties could not have intended to

¹ (1965), 343 F. 2nd 655.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Hall J.

adopt a course which would result in the invalidity of the name. I am of opinion that the Court would not be justified in writing into the contract of assignment from Cheerio to Dubiner of March 1955 any covenant that Cheerio should change its corporate name. That covenant having been omitted, then the result which the learned Exchequer Court judge arrived at was inevitable.

For these reasons, I would dismiss the appeal and the cross-appeal.

The respondent is entitled to the costs of the appeal and the appellant to the costs of the cross-appeal.

JUDSON J. (*dissenting*):—This is an appeal from a judgment of the Exchequer Court¹ which allowed the action of the respondent Samuel Dubiner for infringement of trade marks and rejected the counter-claim of the appellant, Cheerio Toys & Games Limited, for the expungement of certain trade marks.

In 1955 the company was the registered owner of all the trade marks involved in this action. It was at that time controlled by Dubiner. In March 1955, the company assigned all the trade marks with one exception to Dubiner, and in April of that year, Dubiner sold control of the company to one A. Krangle and at the same time granted to the company a non-exclusive licence to use the trade marks in consideration of the payment of a royalty of 5 per cent and a small annuity to Dubiner's mother.

In August 1955, Dubiner and the company jointly applied for registration of the company as a registered user of the trade marks. After some correspondence between the Registrar and the common agent for the two parties on March 9, 1956, the Registrar informed the agent that the company was recorded as registered user of all the trade marks, except one, involved in this action. The company became the registered user of that trade mark about a year later on the same terms.

The terms of the registration are as follows:

¹ [1965] 1 Ex. C.R. 524.

September 14, 1955—CHEERIO TOYS & GAMES LIMITED, 35 Hanna Avenue, Toronto, Ontario, is hereby registered as a Registered User of the trade mark registered under No. N.S. 35-9570 in respect of the wares in association with which the trade mark is now registered. The Registered User is the former owner of the trade mark. The Registered User is to use the trade mark only in association with wares meeting the standards of quality and efficiency established by it while it was the owner of the trade mark, and only so long as the Registered Owner is given free access to the premises of the Registered User to inspect the finished wares and finds them in compliance with the aforesaid standards. The permitted use is without definite period.

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Judson J.

The right of inspection appears for the first time in the application for registration. There was no mention of it in the documents under which the shares were sold and the trade marks assigned.

Trouble developed between Dubiner and Krangle, who had been the controlling shareholder since 1955. On December 28, 1962, after an acrimonious meeting between the two, Dubiner demanded the right to inspect. Krangle refused him this right. On January 8, 1963, Dubiner wrote a letter to the company purporting to terminate the registered user agreement as of December 28, 1962, for the denial of access. This was followed by a demand from Dubiner's solicitors that the company refrain from further use of the trade marks. On February 19, 1963, proceedings were commenced to cancel the appellant's registered user by a letter to the Registrar under s. 49(10)(a) of the *Trade Marks Act*. This application was still pending before the Registrar of Trade Marks at the time of trial. This action was commenced on March 13, 1963.

One of the main grounds of appeal was that the learned trial judge was in error in holding that as of December 28, 1962, the company was no longer a permitted user of the trade marks and that any use by the company of such trade marks after this date would constitute an infringement. In my opinion, the company is right in this submission. Section 49(1) permits the company's registration as a registered user. By s. 49(3) this permitted use of the trade marks has the same effect for all purposes of the Act as a use by the registered owner. Section 49(10) provides for the

1965
 CHEERIO
 TOYS AND
 GAMES LTD.
 v.
 DUBINER
 Judson J.

cancellation of the registration of a person as a registered user of a trade mark in three ways:

- (a) by the Registrar on the application in writing of the registered owner or registered user of the trade mark;
- (b) by the Registrar on his own motion in respect of any ware or services for which the trade mark is no longer registered;
- (c) by the Exchequer Court upon the application of any person of which notice is served upon the registered owner and of registered users on any of certain specified grounds.

Dubiner did take proceedings on his own application before the Registrar under s. 49(10)(a). These proceedings, as I have said, were still pending at the time of the trial. The plaintiff framed his action as one for infringement and an injunction against the further use of the trade marks; damage or profits; and an order for the delivery up of the infringing articles. The plaintiff made no attempt to bring his case within s. 49(10)(c) of the Act, which gives the Exchequer Court jurisdiction to cancel.

According to s. 49(10) the registration can be cancelled only by the Registrar or by the Exchequer Court. There is no provision for cancellation of the registration merely by a notice from one party to the other. As long as the registration is in effect, the company's use is as a permitted user under s. 49(2), and under s. 49(3) has the same effect as use by the registered owner. It cannot be an infringement. If the application for the registered user is regarded as an agreement then the mere cancellation of such agreement would have to be followed by a cancellation of the registration before the use by the appellant became anything other than a use by the respondent itself. The rights specified by s. 49(2) and (3) flow from the registration and continue as long as the registration subsists.

In a contemporaneous and related case before him (*Cheerio Toys and Games Limited v. Samuel Dubiner and Cheerio Yo-Yo and Bo-Lo Company Limited*¹) the learned

¹ [1965] 1 Ex. C.R. 579 at 583.

trial judge expressed the same opinion of the effect of s. 49 that I have just expressed. He stated it in these terms:

Indeed, I had occasion to determine in a case in which judgment was rendered this day under No. A-1190 of the files of this Court that the registered user section being one of exception, its provisions must be strictly adhered to and as a procedure was set down in the above section to obtain cancellation of the registration of a registered user, on the grounds therein mentioned, this procedure is the only one available in such cases.

I agree with this and I cannot understand why he did not apply this principle in the present case instead of holding that the company ceased to be a permitted user the moment the inspection was denied.

On this aspect of the case, I wish to put my judgment on this narrow ground and to leave open the question of the right to cancel for the denial of the inspection. The evidence is that Dubiner sold to Krangle an almost bankrupt business which Krangle brought back to prosperity. The consideration given by Krangle was money for the shares, the royalty on sales and the annuity. In return, the company was to become a permitted user. The right to inspect came in when the application for registration was made by a common agent. This agent, in correspondence with the registrar, represented that the application contained the whole agreement between the parties. This was not true. The right of inspection was of minor importance when one looks at the deal as a whole. The important elements in the consideration were the purchase price of the shares, the royalty and the annuity. That is why I say that I am leaving the question of the right to cancel open and simply saying that there can be no infringement as long as the registration subsists.

Another ground for appeal was that the trade marks Yo-Yo and Bo-Lo were invalid and should be expunged. This is founded on the argument that these marks were not distinctive within the definition of s. 2(f) of the Act and that the registration offended s. 18(1), which reads:

18. (1) The registration of a trade mark is invalid if
- (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; or

1965

CHEERIO
TOYS AND
GAMES LTD.
v.
DUBINER
Judson J.

1965

CHEERIO
TOYS AND
GAMES LTD.

v.

DUBINER

Judson J.

(c) the trade mark has been abandoned;

and subject to section 17, it is invalid if the applicant for registration was not the person entitled to secure the registration.

I agree with the opinion of the learned trial judge that the submission fails on the mark Bo-Lo but on the mark Yo-Yo I am of the contrary opinion. Counsel made it clear that he was not arguing that Yo-Yo was not registrable at the date of registration. He said that he had no concern with this and that it was sufficient for him to show that the word Yo-Yo at the present time means the article itself. The evidence fully supports this submission. I cannot conceive of any person, whether adult or child, going into a shop to buy this article and asking for a Bandalore top. He asks for a Yo-Yo, and everybody knows what this article is. It may well be that those in the toy trade know that Yo-Yos were associated with and made by the company; that there was a registered trade mark in the name of Dubiner with a licence to the company; and that some steps had been taken, although they never reached the court, to restrain infringements. The dominating fact is that this trade mark was and is used by the public as the name of the article. I think that I know why this is so. It was the name of the article when the toy was first introduced into this country. It has always been the name of the article and this has been so found by the United States Circuit Court of Appeals in *Donald F. Duncan Inc. v. Royal Tops Manufacturing Company, Inc. et al.*¹, decided in March of this year.

The learned trial judge in upholding the trade mark put his reasons on very narrow grounds:

It would seem that a trade mark can be lost because it has become to mean the ware itself *only* when the owner has been careless in its use and has allowed extensive piracy of the mark by others.

What the Court is concerned with under s. 18(1)(b) is the actual state of facts at the time of the commencement of the proceedings. Distinctiveness may have been lost many years ago for reasons and because of usage which cannot now be traced or ascertained. The mere fact that at

¹ (1965), 343 F. 2nd 655.

times the proprietor or permitted user has identified the word "Yo-Yo" as a trade mark does not mean that there could not be a loss of distinctiveness, if, in fact, there is a loss of distinctiveness. Careless user or the permission of extensive piracy of the mark by others, two of the factors relied upon by the judge, are merely two possible ways in which distinctiveness may be lost. If the Court concludes that at the time of the proceedings the mark is not distinctive, it is error to hold that this conclusion must be wrong because those two particular causes mentioned by the trial judge are absent. In my opinion, no buyer, at the present day, could possibly associate the word Yo-Yo with the goods of a particular trader or think that Yo-Yo distinguishes the goods of one person from another.

The test of whether a word that was originally a trade mark has become *publici juris* was stated by Mellish L.J. in *Ford v. Foster*¹:

There is no doubt, I think, that a word which was originally a trade mark, to the exclusive use of which a particular trader, or his successor in trade, may have been entitled, may subsequently become *publici juris*, as in the case which has been cited as *Harvey's Sauce* (*Lagenby v. White* (1871) 41 L.J. Ch. 354 n). . . . I think the test must be whether the use of it by other persons is still calculated to deceive the public, whether it may still have the effect of inducing the public to buy goods not made by the original owner of the trade mark as if they were his goods. If the mark has come to be so public and in such universal use that nobody can be deceived by the use of it, and can be induced from the use of it to believe that he is buying the goods of the original trader, it appears to me, however hard to some extent it may appear on the trader, yet practically, as the right to a trade mark is simply a right to prevent the trader from being cheated by other persons' goods being sold as his goods through the fraudulent use of the trade mark, the right to the trade mark must be gone.

The effect of the decision of this Court in *The Bayer Company, Limited v. The American Druggists' Syndicate, Limited*², has been legislated away. That case was decided under the old Act and it held that a trade mark properly registered cannot be expunged if it ceases to be used as a trade mark and becomes merely descriptive of the article to which it has been applied. The case held that the authority to expunge "any entry made without sufficient cause"

¹ (1872), 7 Ch. App. 611 at 628, 27 L.T. 219.

² [1924] S.C.R. 558.

1965
CHEERIO
TOYS AND
GAMES LTD.
v.
DUBINER
Judson J.

means without sufficient cause at the time of registration. The legislation on which this judgment was based was amended by s. 52 of the *Unfair Competition Act* and this amendment appears under slightly different wording in s. 56 of the present Act. The present Act makes it clear that the appropriate time of examination and the propriety of a trade mark's position on the register under s. 18(1)(b) is the time of the proceedings (See Fox, *Canadian Law of Trade Marks*, 2nd ed., 463-5). This is a straight question of fact and it matters not how the lack of distinctiveness is brought about.

There is a public interest in this matter. There should be no judicial watering-down of s. 18(1)(b). Any other result would give the proprietor of a so-called trade mark a perpetual monopoly over the sale of the article even when the mark is in no way distinctive of the wares of the owner.

I would allow the appeal and order that the mark Yo-Yo, registered No. 94 N.S. 24465, is invalid and should be expunged. I would dismiss the action for infringement and declare that the appellant is and has been permitted to use the marks in question in this action at all material times. On the mark Cheerio I would dismiss the cross-appeal for the reasons given by the trial judge. The appellant should have its costs in all proceedings in the Exchequer Court and in this Court.

Appeal and cross appeal dismissed with costs, JUDSON J. dissenting.

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