

1963
 Oct. 7-11,
 17, 18
 1964
 July 29

BETWEEN:

SAMUEL DUBINER, PLAINTIFF;

AND

CHEERIO TOYS AND GAMES LTD., DEFENDANT.

Trade Marks—Infringement—Registered user agreement—Permitted use terminated by breach of registered user agreement—Permitted use of trade mark by registered user deemed to be use by owner thereof—Permitted use controlled by registered owner—User agreement not to be registered if not in the public interest—Application for registered user to be refused if it would cause deception or confusion beyond that necessarily resulting from registered user provisions of Trade Marks Act—Assignment of trade mark need not include goodwill of assignor—Goodwill severable from trade mark—Use of trade mark by permitted user after breach of user agreement constitutes infringement—Loss of distinctiveness—Piracy of trade mark may result in its loss to owner—Abandonment of trade mark—Whether trade marks have become generic—Descriptiveness and distinctiveness not necessarily incompatible qualities—Assignment agreement acted upon by both parties cannot be objected to by them although improperly authorized and executed by the party objecting to it—Assignor of trade mark cannot retain equitable ownership thereof where consideration given for assignment—Ownership of trade mark not divisible into legal and equitable title between registered owner and registered user—Non-distinctive trade mark—Trade mark may be name under which business is carried on—Trade names can be transferred only with goodwill attached to them—Goodwill of trade mark identical to and inseparable from that of trade name where trade mark is part of trade name—Corporate name used as trade mark—Wares not distinguished by trade mark when trade name also used as trade mark—Trade Marks Act, S. of C. 1952-53, c. 49, ss. 2(f), (t), (u) and (v), 4, 18(b), 20, 47(1) and (2), 49 and 53(2)—Unfair Competition Act, R.S.C. 1962, c. 274, s. 2(m).

The defendant company was incorporated in 1938 and carried on the business of selling tops and bats. In 1955 the plaintiff's wife, who owned 75 per cent of the shares in the defendant company, sold her interest therein to one Albert Krangle, but just prior thereto the defendant company assigned all but one of its trade marks to the plaintiff, the remaining trade mark being assigned to the plaintiff in 1957. By the terms of the agreement under which the transfer of interest in the defendant company took place, the plaintiff granted a non-exclusive licence to the defendant company to use the trade marks, patents, industrial designs and copyrights referred to in the licence, which included all the trade marks formerly owned by the defendant company. Under the said agreement the defendant company agreed, *inter alia*, to pay to the plaintiff an annual sum equal to five per cent of the sale price of all bandalore tops sold by it.

The defendant company, together with the plaintiff, applied for registration of the defendant company as a registered user of each of the trade marks in issue and an entry was made in the register of trade marks whereby the defendant company was registered as a registered user thereof but with the proviso that it could so use the trade marks

only so long as the registered owner, the plaintiff, was given free access to the defendant company's premises to inspect the finished wares and found them to be in compliance with the standards therein set out. The permitted use was without definite period.

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In December 1962, at a meeting between Krangle, the president and controlling shareholder of the defendant company and the plaintiff, the defendant company, through Krangle, denied free access to the plaintiff to inspect its wares. In January 1963 the plaintiff purported to terminate the registered user agreement because of this breach of the terms thereof. This action was then instituted by the plaintiff in which he claims damages and consequential relief for infringement by the defendant company of the plaintiff's trade marks and designs.

Held: That the plaintiff was entitled to free access for inspection under the terms of the registered user agreement and this could not be restricted to one area only of the defendant company's premises.

2. That when the defendant denied the plaintiff free access for inspection it forfeited the right to any use of the trade marks subsequent to that time and therefore ceased to be a permitted user within the meaning of s. 49(2) of the *Trade Marks Act*.
3. That the terms referred to in s. 49(2) of the *Trade Marks Act* are the terms which appear in the user agreement and are not restricted to what is defined as use in s. 4(1), (2) and (3) of the *Trade Marks Act*.
4. That the rule under the present *Trade Marks Act* is still that the purpose of a trade mark is to indicate origin by distinguishing the wares of one from those of another, as it was under the *Unfair Competition Act*.
5. That the permitted use under s. 49(3) of the *Trade Marks Act* is an exception to the rule and therefore must be strictly construed and this applies not only to the substantive law but also to the procedure set down therein to give effect to this departure from the general rule.
6. That s. 49(3) is of a very general and broad nature and goes as far as to deem not only that the permitted use of a trade mark by the registered user is use by the owner thereof but also that the wares in association with which the trade mark is used by the permitted user are deemed to distinguish the wares of the owner of the trade mark and it also confers on the permitted user, *inter alia*, the right to raise the same defences in an infringement action as are available to the registered owner, including the statutory right of use of the trade mark conferred on the registered owner by s. 19 of the Act.
7. That the permitted use of a trade mark is a type of deception which Parliament has implicitly recognized as necessary in the general interest of trade but it should not go beyond what is necessary to permit the owner of a trade mark to allow some other person to use it providing the name of such person is not confusingly similar to that of the owner, or if so, no additional objectionable confusion results from the concurrent use by him of the trade mark. Any further deception would be against the public interest which is the governing consideration the Registrar of Trade Marks is faced with when he comes to approve a person as a registered user or when once he has approved the registered user he comes to vary the terms of such use, and it can become a valid reason for cancellation of the registration of a registered user.

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8. That the provisions of s. 49 are permissive and not mandatory and are for the utility of the owner of the trade mark and the registered or permitted use ceases upon the breach of the terms of the registration as endorsed in the Register of Trade Marks if the language of the terms so provides, provided such terms are limited to what is set down in the section as being necessary for the proper carrying out of its intent.
9. That it is a basic requirement on an application for a registered user that the owner of a trade mark retain control over the permitted use; that information with respect to the wares or services for which registration is requested or the restrictions proposed with respect to the characteristics of the wares, to the mode or place of permitted use or to any other matter, be supplied, as well as information as to the proposed duration of the permitted use and such further documents, information or evidence as may be required by the Registrar.
10. That the whole purpose of the conditions underlying the registered user provisions is that the quality of the goods would not be reduced if the marks were permitted to be used by persons other than the owner and the matter of origin is not of too great concern.
11. That since the governing consideration which the Registrar must adopt in permitting the use of a trade mark is the public interest and there is no limitation in the registered user section in this regard, the registration of a proposed registered user is not to be permitted if, for any reason at all, it would not be in the public interest. The Registrar would have to refuse the application if, for any reason whatsoever, approval thereof would cause deception or confusion which went beyond that necessarily resulting from the registered user provisions of the Act.
12. That not only may a trade mark be assigned apart from the goodwill of a business but the goodwill also is considered severable so that a trade mark also can be assigned together with the particular portion of the business in association with which it has been used or even with a particular part of the business being conducted in a particular restricted area.
13. That the same grounds as those enumerated under s. 49(10)(c) can be raised on a hearing before the Registrar under s. 49(10)(a) or (b).
14. That the defendant was no longer a permitted user after breach of the user agreement and any use made by it of the plaintiff's trade marks after that time would constitute infringement.
15. That in cases where the question is whether a particular symbol has been used for the purpose of distinguishing the wares of a particular manufacturer or whether it has been used principally as a description or a name of the wares themselves, the whole course of conduct of the owner or permitted user of the trade mark must be considered in order to determine whether or not it has lost its distinctiveness.
16. That whether a word registered as a trade mark has come to mean the name of the goods or wares themselves is a question of fact to be determined from the circumstances of the particular case.
17. That a trade mark can be lost because it has come 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.
18. That there can be no abandonment of the trade marks YO-YO and BO-LO by the owner because he has maintained his rights to them

by allowing the defendant to use them under controlled licence as permitted by the Act, such use being deemed under the Act to be use by the owner, and for which he has over the period of the user agreement and up to date, received royalty payments.

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19. That the conduct of the plaintiff and defendant in successfully taking action on two occasions to terminate infringement of the trade marks is such as to make it apparent that the trade marks have been used principally as trade marks and consequently cannot be considered to have become generic. This conclusion is strengthened by the fact that in many cases the words YO-YO and BO-LO have been accompanied by the letter "R" in a circle, meaning registered trade mark, on the packing boxes of the wares and that in its advertising the defendant has always indicated that these were registered trade marks.
20. That the sole basis on which the trade mark BEGINNERS might be invalidated as being no longer distinctive would be its descriptiveness, even though these two qualities are not necessarily incompatible, and the question as to whether or not the trade mark actually distinguishes the wares in association with which it is used by its owner from those of others is one of fact.
21. That although it has not been shown that any other producer of tops or bats has used the trade mark BEGINNERS on the same product anywhere in Canada, it has been established on the evidence that the word BEGINNERS, when used by the plaintiff through its registered owner in association with the wares on which it has been used in the area in which the products are sold, was descriptively used for the purpose of indicating that the wares were easy of operation and for beginners as contrasted with those of better quality, and does not actually distinguish such wares from those of others within the first part of the definition of "distinctive" in the statute, and the trade mark is accordingly invalid as not being distinctive at the material time, i.e. when the counterclaim of the defendant was delivered.
22. That since, by virtue of s. 49(3) of the *Trade Marks Act*, use of a trade mark by a registered user has the same effect as use by the registered owner for all purposes of the Act, use by the registered user is deemed to be use by the owner, so that if such use is sufficient to distinguish, then it distinguishes the wares in association with which it is used by its owner (through the registered user) from the wares of others as required by s. 2(f) of the *Trade Marks Act*.
23. That although evidence was adduced which indicated that the agreement by which the trade marks were assigned by the defendant company to the plaintiff in 1955 was improperly authorized and executed by the defendant company, both parties have acted on the assignment, the defendant company having paid royalties thereunder for nearly ten years, and the parties revised the conditions of the assignment in 1959 and 1961, this alone being sufficient in the circumstances of this case to prevent the defendant company from now raising this objection.
24. That although the plaintiff, because of his position in the defendant company in 1955, cannot be considered an outsider and might not therefore be able to benefit from what is termed the indoor management rule, he would still be entitled to whatever rights he might have as a party in good faith to a valid document which contains the transfer of rights and mutual obligations and on which the seal of the company was affixed.

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25. That although the assignment was recited to be for \$1.00 and other valuable consideration, there was in fact other consideration therefor, since the transaction was part of an overall deal whereby the majority of shares of the defendant company were transferred to Krangle and the company was allowed to use the trade marks so that the transfer of the trade marks to the plaintiff cannot be said to have been gratuitous and the defendant company is not the equitable owner of the trade marks.
26. That the fiction created by s. 49(3) of the *Trade Marks Act*, which states that the permitted use of a trade mark has the same effect for all purposes of the Act as a use thereof by the registered owner, would make it impossible in the present situation to argue that there is any division and that the plaintiff has legal title but the defendant has the beneficial or equitable title.
27. That the assignment of the trade marks from the defendant company to the plaintiff and of the user rights back to the defendant company must all be read together and if this is done it appears that as a result of these two 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 has become non-distinctive within the meaning of s. 47(2) of the *Trade Marks Act*. The confusing trade marks are not the trade mark CHEERIO as deemed to be used by the plaintiff and as in fact used by the defendant company but the trade mark CHEERIO which stands in the name of the plaintiff, on the one hand and the corporate name "Cheerio Toys and Games Limited" which stands in the name and ownership of the defendant company on the other hand, and which, under s. 2(u) of the Act, can be the name under which a business is carried on and at the same time a trade mark if it is used in association with wares.
28. That although s. 47(1) of the *Trade Marks Act* now permits the assignment of trade marks with or without the goodwill of the business, this section does not apply to the transfer of trade names which can only be transferred together with the goodwill attached to them, and as there was no assignment of the trade name of the defendant company in 1955, the goodwill remained with it.
29. That since the trade mark CHEERIO is part of the trade name "Cheerio Toys and Games Limited" the goodwill of one is identical to and inseparable from that of the other.
30. That the use by the defendant of its trade name in its advertisements and also on the boxes containing its wares and on the tops themselves is clearly a trade mark use.
31. That even if the defendant had no right to use its trade name as a trade mark the fact as disclosed by the evidence that the plaintiff has allowed or tolerated the defendant to use its trade name as a trade mark over a long period of time has created a situation such that the trade mark because of this can and does no longer distinguish the wares of the plaintiff from those of others, notwithstanding the fact that under s. 49(3) of the Act use by the permitted user is deemed to be use by the owner, bearing in mind here the strict interpretation to be given to the permitted user section which permits the use of a mark and not the use of an infringing mark.
32. That the plaintiff has made out a case of infringement of the trade marks PRO, YO-YO, BO-LO, 99 and TOURNAMENT. The other

trade marks in issue having been found invalid there can be no infringement of them.

ACTION for infringement of trade marks.

The action was tried before the Honourable Mr. Justice Noël at Toronto and Ottawa.

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

J. C. Osborne, Q.C. and *R. G. McClenahan* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

NOËL J. now (July 29, 1964) delivered the following judgment:

This is an action for damages and consequential relief in which the plaintiff claims that the defendant has infringed the following trade marks and designs registered as follows in his name in the Trade Marks Office of Canada as applied to the wares respectively indicated:

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| a) N.S. 35/9570 | CHEERIO YO-YO | Toys and Games |
| b) N.S. 45/12078 | CHEERIO | Toys and Games
(amended Nov. 9/39
by adding Boys' and
Girls' Sports Wearing
Apparel and again on
April 15, 1944 to in-
clude Milk; Coffee,
Tea; Patent Med-
icines, etc. |
| c) N.S. 74/19279 | TUFFY | Toys and Games,
undergarments, blan-
kets, woollen sweaters,
children's suits, dresses
and hats |
| d) N.S. 83/21541 | 99 | Toys and Games |
| e) N.S. 83/21542 | 66 | Toys and Games |
| f) N.S. 83/21543 | 33 | Toys and Games |
| g) N.S. 83/21544 | 88 | Toys and Games |
| h) N.S. 83/21545 | 55 | Toys and Games |
| i) N.S. 83/21554 | 22 | Toys and Games |
| j) N.S. 83/21555 | 44 | Toys and Games |
| k) N.S. 85/22029 | CHEERIO (Design) | Toys and Games |
| l) N.S. 85/22066 | PRO | Toys and Games |
| m) N.S. 85/22096 | TOURNAMENT | Tops of Bandalore
Type |
| n) N.S. 86/22285 | BEGINNERS | Spinning tops of the
Bandalore type |

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The defendant denies infringement and counter-claims for an order striking out the plaintiff's above registrations.

The defendant is an Ontario corporation with its principal office and place of business at the City of Toronto, in the Province of Ontario, and since 1938, the year of its incorporation, has carried on business in Canada selling mainly bandalore tops and paddle balls.

As we are mainly concerned with the trade marks CHEERIO, YO-YO and BO-LO, we will at this stage only deal with them. The evidence discloses that the trade mark CHEERIO YO-YO, registered under No. N.S. 35/9570 of the Trade Marks Office, Canada, by Kitchener Buttons, Limited on March 4, 1933, was transferred for \$1 and other valuable consideration to the defendant corporation by assignment N.S. 3401, G.C. 13383, dated August 12, 1938, and registered in its name as of October 26, 1938, and the trade mark CHEERIO was applied for and obtained by the defendant corporation on January 30, 1939.

The trade mark BO-LO, registered under No. N.S. 48/12848, was acquired by the defendant corporation from an American corporation, All-Metal Bottle Cooler Corporation by assignment dated August 2, 1939, and registered on May 28, 1940.

The plaintiff caused the incorporation of the defendant corporation in 1938 and carried on the business of selling tops and bats through this company, as well as that of plastic toys and kitchen items through a corporation called Dulev Plastics Limited until the year 1955 when he decided to sell the controlling shares of the defendant corporation to a Mr. Albert Krangle, who at the time was a personal

and close friend. Both of the above companies had been managed, since 1942, by a Mr. Gordon Button and a cousin of the plaintiff, a Mr. Irwing Dubiner, in the absence of the plaintiff who, at the time was away from his business, being active in assisting towards the liberation of what is now the State of Israel, and the defendant corporation had lost money during the three years preceding the year 1955. However, on March 15, 1955, a few days prior to the sale of the shares of the defendant corporation which took place on August 17, 1955, all the trade marks belonging to the defendant corporation (with the exception of BO-LO) were assigned to the plaintiff, Samuel Dubiner, upon payment of \$1 and other valuable consideration, as it appears from the said assignment produced as Ex. 7. And on April 11, 1957, the trade mark BO-LO (N.S. 48/12848) was also assigned to the plaintiff as it appears from the said assignment produced as Ex. 9.

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An agreement, produced as Ex. 5, was then drawn up between Mr. A. Krangle, Betty Dubiner, Samuel Dubiner's wife, the said Samuel Dubiner, Cheerio Toys and Games Ltd. and Dulev Plastics Limited, dated August 17, 1955, whereby Betty Dubiner, who owned 75 per cent of the issued common shares of the capital stock of the defendant corporation and Samuel Dubiner, who owned all of the common issued shares of Dulev Plastics Limited, sold them to A. Krangle for \$1 and other valuable consideration. This document contains the following relevant sections 8 and 9 which read as follows:

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

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And an appendix attached to the above agreement carried the following:

2. In the event that Albert Krangle wish to discontinue either Cheerio Toys and Games Co. Ltd. or the Dulev Plastics Co. Ltd. and shall so notify Mr. Samuel Dubiner in writing, then from the date of such notification inventory on hand as at that time may be liquidated by the company without payment of royalty on sale price of same.

It is to be noted here that the royalties mentioned above were payable to the plaintiff whether the trade marks were used or not.

The evidence further discloses that upon Krangle's acquisition of the shares of the defendant corporation some of its assets were sold and Krangle made a substantial loan to the company from which all the creditors of the corporation were paid off and a bankruptcy was avoided. Krangle, however, as the main shareholder of the corporation derived direct benefits from this transaction as a result of operating this business from 1955 to the taking of the present action.

On August 31, 1955, the defendant corporation, Cheerio Toys and Games Ltd., together with the plaintiff, applied for registration as a registered user of each of the trade marks hereunder listed with the exception of BO-LO and the following entry was made on September 14, 1955, of such registered user right in each case. As all the entries are the same, one entry only, (the important parts of which I have italicized) without mentioning any particular trade mark is reproduced hereunder:

September 14, 1955—CHEERIO TOYS AND GAMES LIMITED, 35 Hanna Avenue, Toronto, Ont., 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.

In the case of the trade mark BO-LO the registered user entry is similar but bears, however, the date of May 1957.

It may be of some interest to state here that one A. C. Gallo, who had been with the plaintiff from the very beginning of the latter's activities in bandalore tops and bats, joined the defendant company in 1955, at the time of the transfer of its shares, both as an employee and as a stockholder of 25 per cent of the common shares, and to use the plaintiff's own words, also as a watch-dog for him, which duties, I must say he did perform in a manner such that some time in the spring of 1962 he was dismissed by Mr. Krangle, this, however, not being the sole reason for this separation as there had been in addition thereto continuous bickering between them during most of their association in connection with a number of claims for a participation in profits and salary which are, at the present time, pending before another jurisdiction and with which, however, we do not have to deal here. As a result of all this, both Gallo and Krangle were always threatening to part company and in 1960 Krangle even stated that he was going out of business. I might also add that there is some evidence that in 1962 Krangle may have been expecting some sort of trouble with both Dubiner and Gallo as he had registered some new trade marks for tops in his name which were not related to the trade marks assigned herein. The above facts are of some importance and, in my opinion, necessary to fully appreciate the situation which developed from Gallo's departure from the defendant company up to and including December 28, 1962, when matters came to a head and when the plaintiff alleges the defendant by Albert Krangle breached the terms of its registered user agreement by denying free access to the plaintiff to inspect its wares.

It was around this time that the plaintiff who, during the period 1955 to 1962, was living in Israel, came to Canada in December 1962 to settle the differences between Gallo and Krangle. 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

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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."

On January 8, 1963, the plaintiff wrote a letter to the defendant company and Krangle, which was produced as Ex. 14, containing the following:

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 was then followed by a letter dated January 14, 1963, written by Messrs. McCarthy & McCarthy on behalf of the plaintiff which reads 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 upon 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.

Now, subsequently to the meeting of December 28, 1962, although Krangle had told Dubiner to see his lawyer, he never thereafter got in touch with him to indicate who his lawyer was. On the other hand, although Dubiner tried to reach Krangle over the telephone, he never did succeed and the above correspondence, of course, closed the door to any possible inspection or to any settlement of the matters in dispute.

Proceedings were then instituted by Messrs. McCarthy & McCarthy on behalf of the plaintiff on January 14, 1963, to cancel the defendant's registered user licence by a letter to the Registrar under s. 49(10)(a) of the Act but the latter was not filed in the Trade Marks Office until February 19, 1963, and this application is still pending.

The present proceedings were then taken on March 13, 1963. Later, on May 31, 1963, the Registrar of Trade Marks, upon the plaintiff's request, accepted the registration of a Quebec corporation incorporated by Al Gallo and others under the name of Cheerio Yo-Yo and Bo-Lo Company Ltd.,

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as a registered user and on June 5, 1963, the defendant herein, Cheerio Toys and Games Ltd., appealed from the Registrar's decision to this Court under No. A-1406 which appeal is also before me and with which I shall deal subsequently in another judgment.

On June 10, 1963, Cheerio Toys and Games Ltd. took proceedings against Cheerio Yo-Yo and Bo-Lo Company Ltd., under No. A-1413 of this Court, for directing public attention to its wares and/or business in such a way as to cause or be likely to cause confusion in Canada between its wares and/or business and those of the plaintiff, and passing off its wares and/or business as and for those of the plaintiff and claiming consequential relief and damages in the amount of \$10,000. This action is also before me and will also be dealt with subsequently in another judgment.

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.

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I might also add that the fact that as of January 1, 1963, Mr. Krangle was abandoning the plaintiff's trade marks and switching to his own "Big C Glitterspin" and "Big Chief" would, in my opinion, confirm his unwillingness to comply with the obligation to give free access to the plaintiff.

Having thus determined that the defendant on December 28, 1962, was in breach of its registered user agreement, the question remaining is whether such a breach terminates the rights of the permitted user under s. 49 of the Act as of that date so as to make it no longer entitled to the use of the trade marks as of such date or whether, as submitted by the defendant, it remained a permitted user and, therefore, could not be an infringer as long as its registered user entry remained as such on the Register of Trade Marks.

In my opinion, the defendant's submission cannot be entertained in view of the manner in which the parties to the user agreement as registered in the Register of Trade Marks have by the language used, set down a term to the use upon denial of free access and when the defendant denied the plaintiff free access for the purpose of inspecting the wares, it forfeited the right to any use of the trade mark subsequent to that time and, therefore, ceased to be a permitted user within the meaning of s. 49(2) and not being a "permitted user" could no longer be a person entitled to the use of the trade marks within s. 20 of the Act which reads as follows:

20. 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 this Act who sells, distributes or advertises wares or services in association with a confusing trade mark or trade name, but no registration of a trade mark prevents a person from making . . .

There is indeed no question in my mind that the "terms" mentioned in s. 49(2) "the use of a registered trade mark by a registered user thereof *in accordance with the terms* of his registration as such" which is in this

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section mentioned as the "permitted use" in the present case refer to the terms which appear on the user agreement and which state that the registered user shall use the trade marks only so long as the registered owner has free access. It therefore follows that as soon as he is denied free access, the use made of the trade marks subsequent thereto would no longer be "permitted use". I cannot, as urged by counsel for the defendant, restrict "the terms of his registration as such" in s. 49(2) of the Act to what is defined as use in s. 4(1), (2) and (3) of the Act, but must of necessity give these words an interpretation such that can be included in such terms all those conditions and restrictions necessary to give effect to the registered user provisions of the section. There is no question in my mind here that the defendant by refusing access has broken a stipulation of major importance to the contract as without access there can be no inspection and without inspection there can be no assurance of a maintenance of a standard of quality which, as we shall later see, is one of the main considerations of this registered user section.

Bearing in mind that this section is a relatively new one, and, there being no precedents to rely on, this is new ground, I have examined this matter not only with respect to the words used in s. 49 as well as in other relevant sections of the Act such as ss. 20, 2(v) and 4, but I have also considered what appears to me to be the legislative policy which underlies the whole economy of this new registered user section because, in my opinion, it will be useful not only for the determination of the present case but also in dealing with the other cases I have before me and to which I have already referred.

The conception of registered use in Canada was introduced in 1953 by s. 49 of the *Trade Marks Act*, c. 49, and was a change of considerable importance from the prior *Unfair Competition Act* of 1932. Indeed, under the latter Act s. 2(m) required that an ordinary trade mark be used "by any person in association with wares entering into trade or commerce for the purpose of indicating to dealers in and/or users of such wares that they have been manufactured, sold, leased or hired by him..." which, of course, meant that an ordinary trade mark must be used exclusively by the owner of his own wares and, therefore, indicated origin. It also indicates to a certain

extent quality and we, therefore, have with respect to a trade mark two characteristics, a warranty of origin and a badge of quality.

The reason for the origin requirement was that prior to the present Act it was felt that the prospective purchaser of wares had a right to know the trade source of the wares or goods he was buying and any transfer of the trade mark which would prevent the buyer from knowing the source of the wares would invalidate or impair the trade mark. It therefore followed that a trade mark could be assigned only together with the goodwill of the whole of the business concerned in the goods in association with which the trade mark was used and it could not be licensed for use by others without thereby rendering it non-distinctive and, therefore, invalid.

It is interesting to note that the authority to licence a trade mark in the present Act was not carried out in the definition of a trade mark [s. 2(t)] but only in s. 49 of the Act which now provides in some cases for a system of controlled licensing of trade marks. Indeed, although some changes were made the new definition still retained the basic notion that a trade mark indicates origin, by stating in s. 2(t) that a trade mark "means (i) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others". Furthermore, "distinctive" [under s. (2f)] "in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted to so distinguish them". In principle, the characteristics of origin and distinctiveness have therefore been retained in the new act.

In order, however, to allow someone else besides the owner to use the trade mark, as it has done for the registered user, and for the purpose of reconciling this situation without conflicting with the above definitions, a legal fiction was adopted by means of s. 49(3) which reads as follows:

49. . . .

(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.

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From all this, three rather important considerations should be drawn: (1) the rule under our present *Trade Marks Act* is still that the purpose of a trade mark is to indicate origin by distinguishing the ware of one from those of another; (2) the permitted user under s. 49(3) is an exception to this rule and, therefore, must be strictly construed and this applies not only to the substantive law but also to the procedure set down therein to give effect to this departure from the general rule; (3) s-s. (3) of s. 49 is of a very general and broad nature; it goes as far as to deem not only that the permitted use of a trade mark by the registered user is use by the owner of the trade mark but also that the wares in association with which the trade mark is used by the permitted user are deemed (if the above subsection means what I think it does, i.e., that every effect that the use by a registered user has is exactly the same as if it had been used by the owner) to distinguish the wares of the owner of the trade mark and it also confers on the permitted user (*inter alia*) "the right to the same defences in an action for infringement as are available to the registered owner including the statutory right of use of the trade mark conferred on the registered owner by s. 19 . . ." as held by Cameron J. in *Building Products Limited v. B. P. Canada Limited*¹.

It then, in my opinion, follows that the above situation having thus been allowed to develop necessarily a certain amount of confusion or deception as to origin will occur resulting from the artificial and fictional use of the owner through his registered user. Indeed, it cannot be otherwise, permitted use is a certain type of deception but one which Parliament has implicitly recognized as necessary in the general interest of trade. This deception, however, should not go beyond what is necessary to permit the owner of a trade mark to allow some other person or persons to use it providing the names of such person or persons (and I here include corporations) are not confusingly similar or if so, no additional objectionable confusion results from the concurrent use by them of the trade mark. It should, indeed, be confined to what necessarily results from allowing someone else, a registered user or several of them, to produce, manufacture or sell wares by using the trade mark. Any further deception would, I believe, go against the

¹ (1962) 21 Fox P.C. 130.

public interest which, as it appears in s. 49, s-ss. (7) and (9) of the Act is the governing consideration the Registrar is faced with when he comes to approve a person as a registered user or when once he has approved the registered user he comes to vary the terms of such use. It is also when deception or confusion goes beyond what I have attempted to circumscribe above that deception or confusion can become a valid reason for cancellation of the registration of a registered user under s. 49(10)(c)(i) of the Act which reads as follows:

49. . . .

- (i) that the registered user has used the trade mark otherwise than by way of the permitted use, or in such a way as to cause, or to be likely to cause, deception or confusion.

Some support for such a view can be found in the *Bostitch Trade Mark Case*¹ decided under the English Act where permitted use is also provided for, cf. p. 195:

Both parties appear to have misconceived the provisions of s. 28 (which is our s. 49) for this is not a mandatory but a permissive section and cannot fairly be construed to provide a protective cover for any trade mark use which would otherwise be deceptive or confusing.

Furthermore, these provisions being permissive and not mandatory, it follows that they are for the utility of the owner of the trade mark and the registered or permitted use ceases when the language of the terms of the registration as endorsed in the Register of Trade Marks is such that its violation terminates the user agreement, provided however that such terms are limited to what is set down in the section as being necessary for the proper carrying out of its intent.

It would also appear from s. 49(5) which sets down the material necessary to sustain an application made for a registered user that a basic requirement is that the owner of the trade mark retain a control over the permitted use, that information with respect to the wares or services for which registration is requested or the restrictions proposed with respect to the characteristics of the wares to the mode or place of permitted use or to any other matter, be supplied, as well as information as to the proposed duration of the permitted use, and such further documents, information or evidence as may be required by the Registrar.

¹ [1963] R.P.C. 133.

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This material would appear to be necessary, (although this is not stated clearly in the section but can only be inferred) in order to enable the Registrar to determine whether means have been taken to assure a certain standard of quality in the goods or wares in association with which the trade mark will be used by the registered user.

It therefore now appears that the whole purpose of the conditions underlying registered user provisions is that the quality of the goods would not be reduced if the marks were permitted to be used by other persons than the owner and that by so placing the accent on the characteristic of quality of the goods, if the public interest is protected, the matter of origin would not be of too much concern.

If the Registrar is then in accordance with s. 49(7) "satisfied that in all the circumstances the use of the trade mark in association with such wares by the proposed registered user would not be contrary to the public interest", he may then approve the registered user.

I must add, however, that before so approving a registered user, the Registrar, under s. 49(12) in the event it will affect a person adversely, must give this person an opportunity of being heard personally or by his agent. Indeed, s. 49(2) expresses this as follows:

49. . . .

(12) The Registrar shall not exercise any discretionary power under this section adversely to a person without giving each person who will be affected by the exercise of the power an opportunity of being heard personally or by his agent.

Now we have seen that the governing consideration which the Registrar must adopt in permitting the use of a trade mark is the public interest and it may well be useful to try to establish what this means. It would seem that there being no limitation in the registered user section in this regard, it does mean that the registration of a proposed registered user is not permitted if, *for any reason at all*, it would not be in the public interest.

A likewise interpretation was given to a similar statute in Australia in *Heublein Incorporated and Another v. Continental Liqueurs Proprietary Limited*.¹

Indeed, if for any reason whatsoever, taking into consideration all the circumstances of a particular case, the

¹ 103 C.L.R. 435.

approval of a registered user would cause deception or confusion which went beyond what I have already touched upon as the necessary deception or confusion resulting from the registered user provisions and which would be contrary to the public interest, the Registrar would have to refuse it.

We now have under the registered user section of the Act a permissive procedure whereby the use of trade marks may be assigned for all or any of the wares for which it is registered [s. 49(1)], provided the public interest is protected and proper safeguards of control are used to insure a guarantee of quality in the wares under the control of the Registrar of Trade Marks.

This is further confirmed by s. 47(1) of the Act from which it now appears that not only may a trade mark be assigned apart from the goodwill of the business but the goodwill also is considered severable so that a trade mark can also be assigned together with a particular portion of the business in association with which it has been used or even with a particular part of the business being conducted in a particular restricted area. Section 47(1) of the *Trade Marks Act* reads as follows:

47. (1) A trade mark whether registered or unregistered is transferable, and deemed always to have been transferable, either in connection with or separately 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.

I might also point out that s. 49(10)(a), (b) and (c) determines how, when and by whom the registration of a person as a registered user of a trade mark can be cancelled by stating that it "may be cancelled" (which is permissive and not imperative), (a) by the Registrar on the application in writing of the registered owner or the registered user of the trade mark; (b) by the Registrar on his own motion in respect of wares for which the trade mark is no longer required or (c) by the Exchequer Court upon the application of any person, of which notice is served upon the registered owner and all registered users on any of the grounds mentioned in s-s. (i), (ii), (iii) and (iv). This subsection, however, is not too clear as the grounds mentioned under 49(10)(c) would seem to apply to the proceedings before the Exchequer Court only. However, as the Registrar's right of cancellation is discretionary and as s.

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49(12) does not permit the Registrar to "exercise any discretionary power under this section adversely to a person without giving each person that will be affected by the exercise of the power an opportunity of being heard personally or by his agent" it would seem that the same grounds as those contained under s-s. (c) above could be raised at any such hearing.

The present Act also brought a rather important change in the matter of the distinctiveness of a trade mark which may require consideration here and which I would now like to touch upon.

Under the old Act it was held that a symbol that is not adapted to distinguish in the sense of being both distinctive in fact and inherently adapted to distinguish, must not only be refused registration but cannot even be regarded as a trade mark for any purpose.

It was felt that such a restrictive definition was an unrealistic approach to what actually existed in commercial practice and that there was no good reason why a symbol which had become distinctive in fact of the wares of a particular trade should be denied protection because it was not inherently adapted to distinguish and, therefore, in the definition of a trade mark in the present Act, the requirement that a trade mark must be a symbol which has become adapted to distinguish particular wares was omitted and the situation was corrected by stating in s. 2(t)(i) of the present *Trade Marks Act* that "trade mark" means

2. . . .

(t) . . .

(i) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services . . .

instead of "a symbol which has become adapted to distinguish particular wares" as contained in the *Unfair Competition Act*, 1932.

Having thus determined that as of the date upon which the breach of the user agreement occurred, i.e. December 28, 1962, the defendant was no longer a permitted user, it follows that any use it may have made of the plaintiff's trade marks thereafter would constitute infringement. However, before examining the matter of infringement proper, the counterclaim of the defendant must be considered as,

should any of the plaintiff's trade marks be successfully attacked and become invalid, there could be no infringement of them.

The attacks launched on the plaintiff's trade marks can be narrowed to the following:

(1) The words YO-YO and BO-LO are used in Canada as and are the generic names used to describe a particular type of top and bat respectively and, therefore, cannot be distinctive; the same applies to the words BEGINNERS, PRO, JUNIOR, TOURNAMENT and PRACTICE which are alleged not to be distinctive.

(2) The trade marks CHEERIO, CHEERIO YO-YO, JUNIOR, BEGINNERS, BEGINNER (design), CHEERIO TOURNAMENT (design), CHEERIO CHAMPION, CHEERIO (design) FRIG-EZE and BO-LO, do not actually distinguish any wares of the plaintiff from those of others, but do distinguish the wares of the defendant from those of others.

(3) All of the trade marks mentioned in the Statement of Claim have been abandoned by the plaintiff.

(4) None of the trade marks mentioned in the Statement of Claim actually distinguishes any wares of the plaintiff from those of others.

(5) None of the registrations in the Trade Marks Office of Canada mentioned in the Statement of Claim actually expresses or defines the existing rights of the person appearing to be the registered owner of the said trade marks.

The defendant consequently claims that the said registrations be struck out.

Defendant's first attack on the plaintiff's trade marks is based on the alleged fact that the symbols YO-YO and BO-LO are no longer distinctive as they were or have become by usage descriptive of the wares themselves.

Section 18(b) of the Act provides that a trade mark is invalid if

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

And S.2(f) defines "distinctive" as follows:

- (f) "distinctive" in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted so to distinguish them;

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Mr. Hastings and Mr. Goebel, the former a toy buyer for the Robert Simpson Company, in Toronto, for some odd twenty years and the latter also a toy buyer for the Woolworth Company, in Toronto, for the last sixteen years, were both handed first of all a top bearing among other things the word YO-YO and then one not bearing the trade mark YO-YO and in both cases they said this was a yo-yo. The same thing happened with bats and both of these witnesses stated that they could not distinguish these articles without using the words YO-YO or BO-LO.

Mr. Leslie Vasilaros, a law student in Toronto, who was born in Greece but now lives in Canada was also handed as Ex. 1 a return top with the trade mark YO-YO on it and stated that this was a yo-yo; he also stated that Ex. A, another top without the trade mark YO-YO on it, was a yo-yo. He then added that these toys would also be called YO-YO in his native country, Greece.

The same witnesses admitted, however, that it could also be called a return top although here there could be many kinds of tops and to describe the one we are dealing with the word YO-YO would have to be used, and the same would apply to the word BO-LO which might be called bat-o-ball or bolo-bat. However, both Mr. Hastings and Mr. Goebel knew that YO-YO and BO-LO were trade marks.

Counsel for the defendant produced a page of *Cassell's German and English Dictionary* as well as a page of a German dictionary called *Der Sprach Brockhaus* which shows that the word YO-YO has now become to mean the article itself in that country. On the other hand, counsel for the plaintiff referred to the word yo-yo in Webster's Dictionary, published in 1952, volume 2, at p. 2975, which says:

Yo-yo: A trade mark applied to a spherical top attached to the finger by a cord looped around its grooved middle. Run up and down the cord by skillful jerks, the top does odd tricks, it takes diverting positions.

The *Shorter Oxford English Dictionary* contains the following under the word YO-YO—1932—A toy resembling the old Bandalore—also vb. There is however no mention of the word BO-LO in the dictionary.

Now in cases such as here where the question is whether a particular symbol has been used for the purpose of distinguishing the wares of a particular manufacturer or whether it has been used principally as a description or a name of the wares themselves, the whole course of conduct of the owner or the permitted user of the trade mark must be considered in order to find out whether it has lost its distinctiveness or not.

In *Kodak v. London Stereoscopic*¹ Mr. Justice Eady stated:

Some attempt was made by the Applicant to show that members of the public frequently applied the word "Kodak" to any hand camera, although not sold by the Plaintiffs; that they spoke of their "Kodak" as meaning their hand camera of any make or pattern, and spoke of "kodaking", meaning the taking of snapshots with any pattern of hand camera. But the fact that some persons ignorantly or carelessly called some camera a "Kodak" which is not a "Kodak" (meaning thereby a hand camera supplied by the Plaintiffs, to which they have applied the word "Kodak") cannot affect the legal rights of the parties to these proceedings. No camera has ever been sold or advertised, so far as proved before me, as "Kodak" which is not supplied by the Plaintiffs, and in my opinion it would certainly be wrong and probably fraudulent to do so. The word "Kodak" has not become an ordinary English word in its application either to hand cameras or films. In each case it refers exclusively to the Plaintiffs' goods.

The question as to whether a word registered as a trade mark has become to mean the name of the goods or wares themselves therefore remains a question of fact to be determined from the circumstances of each particular case.

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.

Kerly on Trade Marks, 8th Edition, at p. 244, deals with the matter as follows:

Distinctiveness may be lost through the action of the proprietor, or by reason of successful piracy.

Thus, if the proprietor abandons his mark, it will almost inevitably become a common mark, unless there are other persons who have trade mark rights in it which they assert. If he uses it himself as the name of the goods he deals in, the trade will probably adopt the same course, especially if he is for a time the only dealer in the goods.

There can be no abandonment of the trade marks YO-YO and BO-LO by the owner here as, in my opinion, he has maintained his rights to them by allowing the defendant

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¹ (1903) 20 R.P.C. 337 at 350.

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company to use them under controlled licence, as permitted by the Act and for which he has, over the period of the user agreement and up to date, received royalty payments.

Furthermore, the use of the said trade marks by the defendant company under its registered user agreement has, as we have seen, under s. 49(3) "the same effect for all purposes of this Act as a use thereof by the registered owner" which, as we have seen, means that use by the defendant as a permitted user is deemed to be use by the owner and this, in my opinion, clearly precludes any possibility of the registered owner having abandoned or abandoning his trade marks. The evidence further discloses that on two occasions when the said trade marks were infringed a joint successful action by letter was taken immediately by the defendant corporation and the plaintiff to cause such infringement to cease, and damages were paid. The conduct here of both the owner and user of the trade marks is such that it appears to me that there can be no doubt that the trade marks here have been used mainly or principally as trade marks and, consequently, cannot be considered as having become generic. I might add that the fact that in many cases the words YO-YO or BO-LO have always been accompanied by the letter "R" in a circle on the packing boxes of the wares which, of course, means registered trade mark, and that in its advertising the defendant has always indicated that these were registered trade marks, confirms my view and dispels any hesitancy I might have had in this regard, that the words YO-YO and BO-LO have not become generic so as to have lost their distinctiveness and defendant's attack on this basis therefore fails.

The issue regarding the attack made on the trade mark BEGINNERS, as I see it, is whether the mark BEGINNERS at the time of the filing of the counterclaim herein was distinctive and the onus of showing that it was not distinctive rests on the party attacking the registration. In the present instance, the sole basis on which it might be invalidated as being no longer distinctive would be its descriptiveness which, however, is not necessarily incompatible with distinctiveness. The question to be determined here is whether on the whole, the mark as registered was distinctive at the time the counterclaim herein was entered.

Now, as we have seen, under the present Act, s. 2(f), “distinctive” in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted so to distinguish them.

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The question as to whether or not a trade mark actually distinguishes wares in association with which it is used by its owner from those of others is one of fact depending upon the circumstances disclosed in the evidence of the particular case involved. Here the word BEGINNERS has been in use by the plaintiff through the defendant, its registered user, continuously since 1955 in Canada and the extent of such use as well as the advertising of it may have caused this mark to have become well known as the mark of the plaintiff or as having a common origin and as indicating that the wares here involved, when so marked, are connected with the plaintiff unless because of its innate descriptiveness it could not have been and has not, in effect, been used as a mark. Although it has not been shown that any other producer of tops or bats used this particular mark on the same products anywhere in Canada, on the whole of the evidence adduced I am of the opinion that it has been established that the word BEGINNERS when used by the plaintiff through its registered user, in association with the wares on which it has been used in the area in which the products are sold, was descriptively used for the purpose of indicating that the wares were easy of operation and for beginners as contrasted with one of a better quality and does not actually distinguish such wares from those of others, within the first part of the definition of “distinctive” in the statute. The fact that the defendant corporation has used the word BEGINNERS in connection with its cheapest priced tops and the use on the packages containing these tops of the words “For beginner’s practice” would also, in my opinion, confirm the descriptive use of such a word. It therefore follows that the plaintiff’s mark was not distinctive at the material time, and the said trade mark is invalid.

I was inclined, for the same reasons, to come to the conclusion that this applies also to the trade marks PRO (for professional), TOURNAMENT, JUNIOR and PRACTICE on the basis that they also have been used more as

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a description of graduated scales of proficiency than as trade marks; however, as I am not satisfied that the defendant has here successfully discharged the onus of showing that they were not distinctive, they cannot be invalidated.

I now come to the second, third and fourth attacks made by the defendant on the plaintiff's trade marks, which can be narrowed to two points, namely that (a) the plaintiff's trade marks do not actually distinguish any wares of the plaintiff from those of others, but do distinguish the wares of the defendant from those of others; (b) that the plaintiff has abandoned the trade marks mentioned in the Statement of Claim.

I can deal with these grounds of attack rapidly by saying that because of s. 49(3), which already has been referred to, and which, as we have just seen, sets down that 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, the use by the registered user benefits the owner of the trade mark and is considered or deemed to be use by the owner and if such is the case, and if such use is considered sufficient to distinguish, then it does actually distinguish the wares in association with which it is used by its owner (through its registered user) from the wares of others as required by s-s. 2(f) of the Act which defines "distinctive" in relation to a trade mark as meaning "a trade mark that actually distinguishes the wares...in association with which it is used by its owner from the wares of others."

The same reasoning applies to the submission made by the defendant that because the plaintiff has allowed the defendant alone to use the trade marks in association with their wares since 1955, he should be held to have abandoned them. Indeed, use by the registered user as we have seen profits the registered owner and, furthermore, may I reiterate that the joint action against infringers taken by both parties to this action would preclude any idea of abandonment and, therefore, the above attacks must also fail.

I will now deal with the defendant's last attack which is that the records of registration of the trade marks mentioned in the Statement of Claim do not reflect the rights

of the persons appearing to be the registered owner because (1) the assignment (which purports to have been dated March 15, 1955) of the trade marks from Cheerio Toys and Games Limited to Mr. Dubiner is a nullity and (2) that even if it was valid, all it could do was transfer the legal title and not the beneficial title to the plaintiff.

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The attack on the validity of the assignment (Ex. 7) is based on the fact that although it was signed by Betty Dubiner, the plaintiff's wife, on behalf of the defendant company and purports to be dated and executed in Toronto, on March 15, 1955, the evidence definitely establishes that the signatory was in Israel on the above date and not in Toronto. Mr. Krangle testified to this and produced a photograph showing Mrs. Krangle and Mrs. Dubiner in a hospital in Israel on that date which evidence has remained uncontroverted.

There is also a further complication in that the meeting of the Board of Directors which is said to have taken place on March 15, 1955, and which Betty Dubiner is said to have attended, with Gladys Button and Florence Scott, the three being all the directors of the defendant company at the time, could not have been attended by Betty Dubiner on that date as she was in Israel at the time and the memorandum of this meeting, although signed by Betty Dubiner and Florence Scott, is not signed by Gladys Button.

Furthermore, the motion adopted at this meeting approving the assignment authorized "any two of the officers of the company to sign the agreement on behalf of the company and to affix the seal of the company" and the only two appointed officers of the company at the time as appears from a meeting held on February 21, 1955, were Gladys Button and Florence Scott and although Betty Dubiner was a director of the company she was not on the relevant date an officer thereof.

Now before dealing with this attack by the defendant on the assignment, Ex. 7, it should be mentioned that on March 7, 1956, at a time when the defendant company was owned by Mr. Albert Krangle and at a meeting when all the shareholders of the company were present, as evidenced by the signatures of Albert Krangle, Florence Scott and Al Gallo, a resolution was passed which the plaintiff claims would have corrected any irregularity in

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the approval and signing of the assignment document and which reads as follows:

The following resolution was thereupon unanimously passed on motion by Albert Krangle, seconded by Florence Scott, resolved that all acts, contracts, by-laws, elections, appointments and payments of money by the Board of Directors or by the officers of the Company as set forth in the minutes of the Board of Directors be and the same are hereby approved, ratified and confirmed. Carried unanimously.

Counsel for the defendant, here submits that all this resolution does is approve, ratify and confirm the acts of the Board of Directors which approved the agreement to authorize it to be signed by any two officers of the company which, however, as we have seen, was never carried out, that the ratification of this authorization is one thing, but that the carrying out of it is another and this, he urges, was never done.

It appears to me that even if this argument is to be accepted, it would at least clarify part of the present situation in that (a) there is no question but that the company wanted to approve the assignment, Ex. 7; (b) that the absence of Mrs. Dubiner from the meeting would have no bearing on the validity of the meeting since it appears that there was a quorum as two other directors were present and the only matter that remains to be determined is the effect to be given to the fact that Mrs. Betty Dubiner, who was not an officer of the company, signed the said assignment alone on behalf of the company.

Now the evidence clearly establishes that it was the clear intention of the defendant company, acting through its members, directors or officers, to enter into the agreement contained in Ex. 7. Indeed, effect was given thereto by the company, by the royalty or other payments made to the plaintiff from 1955 to date, i.e., over a period of nearly ten years. Furthermore, in addition to having acted on the assignment, the parties also revised its conditions twice, once in 1959 and then in 1961, and this alone, in my opinion, should be sufficient in the circumstances of this case (bearing in mind that Albert Krangle, who owns the equity in the defendant company at the present time, was also the interested person during the whole period under review) to prevent the defendant from now raising this objection. I might add here that authority can be found in an early Privy Council case *Ho Tung v. Man on In-*

surance¹ that mere tacit acquiescence over a long period may even regularize the absence of a resolution and, of course, that is the situation we unquestionably have here.

Furthermore, Mrs. Betty Dubiner, who was a director of the defendant company, need not necessarily have been regularly appointed to sign the document in order to bind the company. Under s. 304 of the *Ontario Corporation Act*, and the defendant is an Ontario corporation "the acts of a director or of an officer are valid notwithstanding any defect that may afterwards be discovered in his appointment or qualification." In the case of *Mahony v. East Holyford Mining Co.*², neither the directors nor the secretary had in fact, been properly elected to their offices, yet the company was held to be bound by their acts.

It would seem that what most of the decisions on this subject are concerned with is to prevent an agent from clothing himself with an appearance of authority which would bind the company without any complicity on its part. Such is not the situation here where the company knowingly allowed a director to hold herself out as being authorized to represent it.

As put by *Gower Modern Company Law* at p. 167: "This appears to be an example of circumstances in which the veil of incorporation is lifted so as to allow a company to be bound by the informal consent of its individual members."

I might also add that it is not an uncommon occurrence particularly in small private companies such as here whose meetings tend to be conducted informally, that transactions are carried out without the proper procedure. It appears to me to be good law that if these improperly authorized agents of the company are knowingly allowed to be held out as representing the company, the latter will be estopped from denying that they occupy the position they have assumed.

Such, in my opinion, may I reiterate, is the situation we find here and Mrs. Betty Dubiner having been held out to be the person authorized to sign the assignment, the defendant cannot now deny that she was not so authorized.

¹ [1909] A.C. 232 P.C.

² (1875) L.R. 7 H.L. 869.

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Now, although the plaintiff in this case, because of his position in the defendant company in 1955, cannot be considered as an outsider and might not, therefore, be able to benefit from what is termed "the indoor management rule", he would still be entitled, in my opinion, to whatever rights he might have as a party in good faith to a valid document which contains the transfer of rights and mutual obligations and on which the seal of the company was affixed.

In *Duck v. Tower*¹ it was stated:

... in the House of Lords, it has always been held that it is not incumbent on the holder of such a document purporting to be issued by a company to inquire whether the persons pretending to sign as directors have been duly appointed. Those cases were followed by the Court of Appeal in the *County of Gloucester Bank v. Rudry Merthyr Steam and House Coal Colliery Co.*; so that there has been ample authority to shew that no informality will alter the rights possessed by a *bona fide* holder for value upon a document that purports to be in order. In this case the seal of the company was affixed, and the debenture purports to be signed, by two directors.

I now come to the defendant's second proposition which is that even if the legal title to the trade marks was transferred by the assignment document, Ex. 7, the beneficial or equitable title remained with the defendant and the plaintiff would then be in the position of a trustee and could only act in the interest of the beneficial or equitable owner, i.e., in the interest of the defendant company.

This proposition is based on the common law and takes place when the legal title only is passed and the beneficial title remains with someone else. In such a case the transfer of the legal title is considered as a mere formality, the passing of something in the nature of a paper title and the legal title holder must act on behalf and in the interest and as directed by the equitable or beneficial title holder.

Furthermore, with respect to gratuitous transfers, the law appears to be that the property is deemed in equity to be held as a resulting trust for the transferor unless there is some further indication of an intention at the time to benefit the transferee. cf. Halsbury, Third Edition, Vol. 38, pp. 867-868.

If this was the situation here, the defendant being the equitable owner, could authorize the plaintiff, the legal

¹ [1901] 2 K.B. 314 at 318.

title holder, to grant a licence to another or could retain exclusive use for itself.

The defendant submits that this has occurred in the present case, because the assignment to the plaintiff of the trade marks which took place in 1955 was gratuitous; that it purported to be for \$1 and there is no evidence that it was even paid. The defendant adds that there is evidence to the effect that one of the main reasons for the non-exclusive licence back to the defendant company was to place it in a position in which it would be more favourably placed from the standpoint of sales tax. Furthermore, the defendant company, over a period of seven years, from March 1955 to the spring of 1962, used these trade marks exclusively. During that time infringement occurred in two instances when the defendant company conducted the proceedings which resulted in recoveries of money from the alleged infringers which the defendant retained. The defendant therefore urges that it, and not the plaintiff, protected the trade marks and was compensated for their infringement and that such a course of action is consistent with ownership.

The defendant, because of s. 53(2) of the *Trade Marks Act* which states that "a copy of any entry in the register purporting to be certified to be true by the Registrar is admissible in evidence and is *prima facie* proof of the facts set out therein", is hereby attempting to rebut this *prima facie* proof. In my opinion, it has not succeeded in doing so as, although the assignment was made for \$1, there were other considerations. Indeed this transaction, as we have seen, was part of an overall deal whereby the majority of the shares of the defendant corporation were transferred to Krangle and the corporation was allowed to use the said trade marks (from which it derived some profit) by paying certain amounts regularly to the plaintiff's mother as well as the royalty payments made over a period of years, and the amounts which replaced them when the agreement was revised. Indeed, by no stretch of the imagination can it be said that this was a gratuitous transfer.

Now, although one of the reasons for the deal whereby a non-exclusive licence was given back to the defendant was to place the latter in a more favourable position from the standpoint of sales tax, this was not the sole reason, the main one being to permit the plaintiff at some time, as he stated

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in evidence, to either use the trade marks himself, if such a thing was possible, or to allow someone else to do so.

Finally, the fiction created by s. 49(3) which, as we have seen, states that "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" would make it impossible in the present situation, to argue that there is any division here and that one has the legal title and the other the beneficial title. Indeed, because of this fiction we must assume that during the whole time the defendant was using these trade marks from 1955 to December 28, 1962, the plaintiff was using these trade marks and this, in my opinion, disposes of the contention that there could have been here any division between the beneficial ownership and the legal ownership.

I now come to deal with a matter which has given me considerable trouble and which I believe requires some elaboration. In the recital of facts at the beginning of this judgment it appears that the trade mark CHEERIO did not come into existence in 1955 when Mr. Krangle acquired the shares of Cheerio Toys and Games Limited but some time prior to 1938 when the defendant company was incorporated and it was assigned to the latter on incorporation. From 1938 until 1955, a period of 17 years, it was used exclusively by the defendant company during which time, in addition to the ownership of the trade name "Cheerio Toys and Games Limited" and the trade mark CHEERIO being in the same person, i.e., the defendant company, the word CHEERIO *per se* distinguished exclusively the wares of the defendant company from those of others. It was only, as we have seen, shortly before Mr. Krangle took over the defendant company in 1955 that the trade mark CHEERIO was transferred to Mr. Dubiner after which a registered use was given back to the defendant company who, however, continued to use the said trade marks exclusively, and it is only for this latter period that the use by the permitted user is deemed to be use by the owner.

Now, when the above use commenced, the trade mark CHEERIO and the trade name "Cheerio Toys and Games Limited" were clearly established as identifying the wares and business of the defendant company. Furthermore, as Dubiner was a party to the agreement of March 17, 1955, he must be taken to have acknowledged and consented to the use of the corporate name "Cheerio Toys and Games

Limited" without any limitation, as none appear in any of the documents produced in this case including the use agreement which does not mention that the defendant will give up or renounce the use of the word CHEERIO in its trade name upon termination of this agreement.

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:

47. . . .

(2) 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 a confusing trade mark and such rights were exercised by such persons.

The confusing trade marks I am dealing with here are not the trade mark CHEERIO as deemed to be used by Dubiner and as used by the defendant corporation as a permitted user but the trade mark CHEERIO which stands in the name of Dubiner on the one hand and the corporate name "Cheerio Toys and Games Limited", which stands in the name and ownership of the company on the other hand and which, under s. 2(u) of the Act can be the name under which a business is carried on but can also at the same time be a trade mark if it is used in association with wares, as set down in *Boston Rubber Shoe Company v. The Boston Rubber Company*¹ where a trade name was so used as a trade mark Fox, *Canadian Law of Trade Marks*, Second Edition, Vol. 2, at p. 812, deals with the possible hybrid nature of trade marks as follows:

The distinction between trade names and trade marks lies mainly in the fact that a trade mark is used in association with vendible commodities or services while a trade name is more properly used as applied to the goodwill of a business. But it must be remembered that trade names are often used in association with vendible commodities and services and that trade marks, just as much as trade names, are a constituent part of the goodwill of a business. There is thus a distinction between a trade mark as applied to goods and a trade name used in association with goods.

¹ (1901-02) 32 S.C.R. 315.

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This distinction was made clear in *Singer Mfg. Co. v. Loog* [(1882), 8 App. Cas. 15 at 32] where Lord Blackburn said: "There is another way in which goods not the plaintiffs' may be sold as and for the plaintiffs'. A name may be so appropriated by user as to come to mean the goods of the plaintiffs, though it is not, and never was, impressed on the goods, or on the packages in which they are contained, so as to be a trade mark, properly so called, or within the recent statutes. Where it is established that such a trade name bears that meaning, I think the use of that name, or one so nearly resembling it as to be likely to deceive, as applicable to goods not the plaintiffs', may be the means of passing off those goods as and for the plaintiffs' just as much as the use of a trade mark; and I think the law (so far as not altered by legislation) is the same. And I think it is settled by a series of cases, of which *Hall v. Barrows* [(1863), 4 De G.J. & S. 150] is, I think, the leading one, that both trade marks and trade names are in a certain sense property, and that the right to use them passes with the goodwill of the business to the successors of the firm that originally established them, even though the name of that firm be changed so that they are no longer strictly correct . . . To call a word or symbol applied to or used in association with wares a trade name is in reality a misnomer. Such a word or symbol is a trade mark. Even if it is not marked on the wares but only used, displayed or advertised in association with them such use is a trade mark use and not a trade name use.

Now although s. 47(1) now permits the assignment of trade marks with or without the goodwill of the business, this section does not apply to the transfer of trade names which can only be transferred together with the goodwill attached to them, the old common law still applying in such a case, and as there was no assignment of the trade name of the defendant company in 1955, we may take it that the goodwill remained with the defendant corporation. It also appears to me that as we are dealing with a trade mark CHEERIO, which happens also to be part of a trade name "Cheerio Toys and Games Limited", the goodwill of one is identical to and inseparable from that of the other. This may be of some importance in dealing with the third action, which is one of passing off.

Furthermore, the evidence discloses that although the trade mark CHEERIO was used by the defendant on its wares and wrappings, it also reveals that the corporate name "Cheerio Toys and Games Limited" was also sometimes unquestionably used in association with wares by the defendant company during the whole period of its existence including the period from 1955 to date, either on the packages, sometimes imprinted on the articles themselves and sometimes in its advertisements, and when so used, it was used as a trade mark.

I have gone over the evidence with some care in order to ascertain what kind of use the defendant made of its trade name in association with the wares and it appears from such examination that the defendant did not use its trade name merely on its advertisements, but also used it consistently on the boxes containing its wares and possibly also on the tops themselves if one looks at the invoice blank, the reverse side of which was used as note-paper produced as Ex. 11 and which contains the reproduction of a top with a label bearing the following writings: "Cheerio Toys and Games Limited", "Cheerio, Toronto, Ontario."

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Such a use is clearly a trade mark use and it falls within what was considered as trade mark use in an American case, *in re Lyndale Farm*¹:

Use of a mark on a container used solely for transportation or storage with the container being discarded when the transportation or storage ends, is not a trade mark use. This is trade name use as distinguished from trade mark use. The mark must be so used that it comes to the attention of wholesale or retail purchasers as a means of identification.

There is indeed no question here but that the trade name of the defendant used as it was came to the attention of the wholesale or retail purchasers over a period of 26 years and that explains why as sworn to by Mr. Krangle at p. 509 of the transcript, the defendant corporation was "familiarily referred to as the Cheerio Company."

It therefore appears from all this that as a result of the transactions which took place in 1955, the trade mark CHEERIO was owned by Mr. Dubiner and when it was used by the defendant company as a permitted use was use attributable to Dubiner. However, the trade mark "Cheerio Toys and Games Limited" was never assigned and the use of it made by the company was not by virtue of any user agreement with the plaintiff, but was use in its own right. May I add here that even if my assumption that the defendant's trade name as a trade mark was used by right is not so (on the principle set down in the *Boston Rubber Shoe Company v. The Boston Rubber Company (supra)* "that the defendant's use of their corporate name in the manner described" [i.e. a trade mark] "was a fraudulent infringement of the plaintiff's registered trade mark") and

¹ 186 F. 2d. 723.

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that such use be considered as not a rightful one, it appears to me that the fact as disclosed by the evidence that the plaintiff has allowed or tolerated the defendant company to use its trade name as a trade mark over a long period of time has created a situation such that the trade mark because of this can and does no longer distinguish the wares of the plaintiff from those of others, notwithstanding the fact that under s. 49(3) of the Act use by the permitted user is deemed to be use by the owner bearing in mind here the strict interpretation to be given to the permitted user section which permits the use of a mark and not the use of an infringing mark.

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.

Now although the company formed by Al Gallo, Cheerio Yo-Yo and Bo-Lo Company Ltd., was authorized by the owner of the trade marks YO-YO and BO-LO to use them in its trade name, I am not able to deal with them as I have dealt with CHEERIO in view of the manner in which this corporation has derived its rights to use the trade marks in their trade name from the registered owner himself and also because I am not satisfied that on the evidence the trade name has been used as a trade mark in association with its wares, or if such use has occurred, it is of such magnitude that in effect these trade marks no longer distinguish the wares of the owner from those of others.

I now come to the matter of infringement which must be considered from December 28, 1962, to the taking of the present action, March 13, 1963.

The evidence discloses, and Krangle has admitted, that the following trade marks have been used by the defendant company during the above period:

CHEERIO YO-YO, N.S. 35/9570;

CHEERIO, N.S. 45/12078;

CHEERIO DESIGN in a slanting picture, N.S.
 85/22029;

BEGINNERS, N.S. 86/22285;
 PRO, N.S. 85/22066;
 YO-YO, N.S. 94/24465;
 BO-LO, N.S. 48/12848;
 99, N.S. 83/21541 and
 TOURNAMENT, N.S. 85/22096.

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The words PRO and 99 are reproduced all over the booklet (Ex. 44) produced by the defendant as follows: "Genuine pro 99 Yo-Yo top"; on Ex. 50, which is a Bo-Lo price list of the defendant company, "Pro Bo-Lo Bat" is used on some old boxes with the word "Tournament" inserted thereon, which the defendant company acquired at the time of the take over of the company. On Ex. 55, which are new books put out by the defendant, the word "Tournament" is used with an "R" in a circle on it. On the side of a box belonging to the defendant company, Ex. 25, there is a reference to "these tricks can be done with a Cheerio 'Pro'" and the word pro here is in quotes. On the back of the string bag, Ex. 56, on the little crest in the lower right hand corner, the figure "99" appears.

I therefore must come to the conclusion that the plaintiff has made out a case of infringement of the following trade marks: PRO, YO-YO, BO-LO, 99 and TOURNAMENT. As for CHEERIO YO-YO, CHEERIO CHAMPION, CHEERIO, CHEERIO DESIGN, BEGINNERS, in view of my finding these trade marks invalid, there can be no infringement of them.

There will therefore be judgment holding the said trade marks CHEERIO (N.S. 45/12078), CHEERIO YO-YO (N.S. 35/9570), BEGINNERS (N.S. 86/22285, as well as the CHEERIO DESIGN (N.S. 85/22029), CHEERIO BEGINNER DESIGN (N.S. 89/23191) and the CHEERIO TOURNAMENT DESIGN (N.S. 89/23192) invalid and they shall be expunged. There will also be judgment in favour of the plaintiff that the following trade marks YO-YO (N.S. 94/24465), BO-LO (N.S. 48/12848), 99 (N.S. 83/21541) and PRO (N.S. 85/22066) have been infringed by the defendant company, and for the injunction sought by him restraining the defendant company by its servants, agents or workmen or otherwise from further infringement of the above mentioned trade marks and an order for delivering up to the plaintiff all infringing articles in the

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possession or control of the defendant or that the said infringing articles be destroyed under oath unless the defendant corporation can remove the labels or other inscriptions on the infringing articles in which case the said injunction shall be stayed for one month to enable it to perform this operation. Both parties having been partly successful in this case, there shall be no costs for either of them and as for the matter of damages or profits, they will be such as the Registrar of this Court may award on a reference to him, if the plaintiff elects such reference.

Judgment accordingly.