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CHANNELL LIMITED (PLAINTIFF) . . . . . APPELLANT;

\*Mar. 7, 8.

\*June 12.

AND

O'CEDAR CORP'N. (DEFENDANT) . . . . . RESPONDENT.

ON APPEAL FROM THE APPELLATE DIVISION OF THE SUPREME  
COURT OF ONTARIO

*Patent—Trade-Mark—Grant of exclusive license for Canada as to inventions and trade-mark—Alleged breach of license agreement—Construction of agreement—Licensor's covenant as to proceedings to prevent infringement—Licensee's agreement to operate under the letters patent—Liability for royalties.*

Defendant granted to plaintiff the exclusive license to make, use and vend in Canada certain patented inventions relating to improvements in mops, and also the exclusive use in Canada of the trade-mark "O Cedar" with which the articles manufactured under the patents were to be labelled, and plaintiff agreed to operate in Canada under the letters patent and to use the trade-mark, and to pay a royalty of 10% of the net amount of O'Cedar products shipped and billed in Canada. The agreement further provided (*inter alia*) that the defendant should "within one month after receipt of written demand by [plaintiff] institute and prosecute all actions and proceedings necessary to prevent any infringement of the said letters patent \* \* \* and said trade-mark" within Canada, and that if a certain mop patent should, in any action for infringement, be declared invalid, all royalties payable in respect thereof should forthwith cease to be payable. Plaintiff, alleging that defendant had not complied with its demand to take proceedings to enjoin the manufacture and sale of certain mops alleged to infringe the letters patent, and that, as the result of an unsuccessful action by plaintiff and defendant to restrain the use of a certain trade-mark as infringing defendant's trade-mark, the latter had been declared invalid, and that defendant had failed to furnish advertising copy as agreed, sued for damages for breach of contract and for a declaration that royalties under the agreement were not payable. Defendant disputed plaintiff's allegations and claims and counterclaimed for an accounting of O'Cedar products sold and payment of royalties.

*Held*, affirming in this respect (Newcombe J. dissenting) judgment of the Appellate Division, Ont. (60 Ont. L.R. 525), that plaintiff's action failed; defendant was obligated to prosecute actions against actual infringers only, and plaintiff had not established that the mops alleged to infringe the patent actually did so; further, on giving to the agreement its proper construction and effect, the clause obliging defendant to take action to prevent infringement was rendered inoperative by plaintiff's failure to continue operating "under the letters patent," as, since 1921, the mops manufactured and sold by plaintiff had not been made under the patent; moreover, if plaintiff did not sell mops made under the patent, it could hardly suffer actual loss by reason of its infringement, and without establishing actual loss it

\*PRESENT:—Anglin C.J.C. and Duff, Newcombe, Rinfret and Lamont JJ.

was not entitled to damages; moreover, although the patent had not been declared invalid, as plaintiff was not selling mops made under it there were no royalties payable "in respect of the patent," and therefore nothing upon which the relevant relieving clause could operate; plaintiff's claim for damages for defendant's failure to protect it from infringement of the trade-mark failed, because no demand for action was made pursuant to the agreement, and because of lack of evidence of infringement, or loss suffered thereby; also its claim for breach of covenant to furnish copies of advertising failed upon the evidence. (Newcombe J., dissenting, held that the contract did not require that there should be an infringement of the mop patent before the authorized demand could have its contractual effect; defendant had contracted an absolute obligation, in a reasonable case, upon the specified demand, to take the necessary proceedings; the trial judge had decided in effect that proceedings were necessary to prevent infringements, and there was adequate evidence to uphold this finding.)

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*Held*, further, reversing in this respect the judgment of the Appellate Division, that the defendant's counterclaim failed, as, on construction of the agreement and on the evidence, the articles in question in respect of which royalties were claimed were not "O'Cedar products" and therefore not liable to royalties.

APPEAL by the plaintiff from the judgment of the Appellate Division of the Supreme Court of Ontario (1) which (reversing judgment of Kelly J. (1) ) held that the plaintiff's action should be dismissed and the defendant's counterclaim allowed.

The defendant was a company incorporated under the laws of the State of Illinois, with its head office in the city of Chicago. It manufactured and sold in the United States products consisting of (*inter alia*) polishing mops, labelled and marked "O'Cedar." The plaintiff was a company incorporated under the laws of the Province of Ontario, with head office in the city of Toronto. By an agreement dated May 1, 1915, which recited (*inter alia*) that the defendant was entitled to certain letters patent for the Dominion of Canada, and was the owner of the trade-mark "O'Cedar" duly registered in Canada, and that all articles manufactured under the patents should be labelled or marked with said trade mark, the defendant granted to the plaintiff the exclusive license to make, use, exercise and vend in Canada the inventions which were the subject matter of the letters patent; the plaintiff to pay a royalty of 10% of the net amount of O'Cedar products shipped and billed in Canada. The plaintiff was not, during the subsistence of the license, to raise any objection to the validity of the let-

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ters patent or inventions, and was to do all in its power to detect infringements and threatened infringements of the letters patent and trade-mark within Canada, and, if required by defendant, but at the cost of defendant, to assist it in instituting and prosecuting legal proceedings for the prevention of such infringements. The defendant granted to the plaintiff the right to the exclusive use of the trade-mark "O'Cedar." The plaintiff agreed "to operate in the Dominion of Canada under the letters patent \* \* \* and to use the said trade-mark." By clause 10 of the agreement the defendant agreed that it would "within one month after receipt of written demand by the [plaintiff] institute and prosecute all actions and proceedings necessary to prevent any infringement of the said letters patent \* \* \* and said trade-mark within the Dominion of Canada," and, by clause 11, it was agreed that if a certain mop patent should in any action for infringement or proceedings for revocation be declared to be invalid all royalties payable in respect thereof under the agreement should forthwith cease to be payable, but if the decision of the court making such declaration should be reversed on appeal, the said royalties should forthwith again become payable together with all royalties which would have been payable but for the adverse decision. By clause 18 the defendant agreed to furnish from time to time to the plaintiff copies of all advertising which it might use.

In its statement of claim the plaintiff, among other things, alleged that it had demanded that defendant should take proceedings to enjoin the manufacture and sale in Canada of certain mops which, plaintiff alleged, infringed the letters patent, and that defendant failed or omitted to comply; that in or about the year 1922 the plaintiff and defendant brought an action in the province of British Columbia to restrain certain persons from manufacturing or selling mops and polishes under the trade-mark of "Cedar-Brite" or similar word infringing the defendant's trade-mark "O'Cedar," but that the action failed, and in the result the defendant's trade-mark was declared to be invalid (1); that, by reason of defendant's failure or omission to protect the plaintiff from infringements of the mop patents and trade-mark, it was relieved from liability to

(1) See [1924] S.C.R. 600.

pay royalties; that the defendant had failed to furnish it with advertising copy in accordance with the agreement; and the plaintiff claimed (*inter alia*) a declaration that the royalties were not payable, and damages.

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The defendant disputed the plaintiff's said allegations and claims, denied any default on its part under the agreement, and, alleging that the plaintiff had failed to account for O'Cedar products sold, counterclaimed for an accounting and payment of the amount of royalties found due.

Kelly J. gave judgment for the plaintiff on its claim, and dismissed the defendant's counterclaim (1). His judgment was reversed by the Appellate Division, which held that the plaintiff's action should be dismissed and the defendant's counterclaim allowed (1). The plaintiff appealed to this Court.

By the judgment of this Court, now reported, as to plaintiff's claim the appeal was dismissed with costs, Newcombe J. dissenting; as to defendant's counterclaim, the appeal was allowed with costs in this Court and in the Appellate Division, and the judgment of the trial judge restored.

*G. W. Mason K.C.* and *F. W. Torrance* for the appellant.

*R. S. Robertson K.C.* and *J. W. Pickup* for the respondent

The judgment of the majority of the court (Anglin C.J.C. and Duff, Rinfret and Lamont JJ.) was delivered by

LAMONT J.—In this action the plaintiff seeks to recover from the defendant damages for the defendant's failure to observe the terms of the agreement entered into on May 1, 1915, and for a declaration that the royalties payable by the plaintiff under said agreement should not become payable until the defendant remedies its default.

The parties to the agreement were the defendant as licensor, the plaintiff as licensee, C. A. Channell, president of the defendant corporation, and A. T. Channell, president of the plaintiff company.

The agreement recited that the licensor had been granted letters patent no. 150,322 in the Dominion of Canada for

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inventions relating to improvements in polishing mops, dusters, and polishing and cleaning materials and processes, and that it had applied for letters patent for improvements in respect of the said inventions. It also recited that the licensor was "the owner of the trade-mark O'Cedar, duly registered in the Dominion of Canada," and that "all articles manufactured under said patents, granted, applied for or to be applied for hereafter, shall be labelled or marked with such trade-mark." By the agreement the licensor granted to the licensee the exclusive license to make, use and vend in Canada the inventions which were the subject matter of the letters patent, and also the exclusive use in Canada of the trade-mark "O'Cedar." The licensee on its part agreed to operate in Canada under the letters patent and to use the trade-mark, and to pay to the licensor monthly a royalty of 10% of the net amount of O'Cedar products shipped and billed in Canada. Then there are the following provisions:—

10. THE LICENSOR shall within one month after receipt of written demand by the Licensee institute and prosecute all actions and proceedings necessary to prevent any infringement of the said letters patent, granted, applied for or to be applied for, and said trade-mark within the Dominion of Canada.

11. If the Letters Patent Numbered 1 in the First Part of Schedule "A" hereto shall in any action for infringement or proceedings for revocation be declared to be invalid on any ground whatsoever all royalties payable in respect of such patent hereunder shall forthwith cease to be payable, but if the decision of the Court making such declaration shall be reversed on appeal, the said royalties shall forthwith again become payable together with all royalties which would have been payable but for the adverse decision \* \* \*.

Clause 13 provides that during the continuance of the license the licensor will not make or vend within Canada any O'Cedar product; and clause 18 provides that the licensor shall furnish free of charge to the licensee "copies of any and all advertising which it may use or cause to be used."

In 1922 the plaintiff and the defendant joined in bringing an action in the courts of British Columbia to restrain one Rombough and the Dust Control Company from selling in that province mops and polishes under the name of "Cedar" or "Cedarbrite" on the ground that these names were an infringement of the trade-mark "O'Cedar." The action failed and it was held that the registration of the word "O'Cedar" as a trade-mark did not prevent the use

by another person of the word " Cedar " as applied to goods manufactured for a similar purpose. (*Channell Limited v. Rombough* (1) ). The plaintiff then complained that it had lost the exclusive use of the trade-mark which the defendant covenanted it should have and requested the defendant to make a reduction in the royalties payable under the agreement. The defendant would not agree. The plaintiff then wrote to the defendant complaining that two mops—the Universal Polish Mop and the Big Wonder Oil Mop—were being sold in large numbers in Canada in competition with the plaintiff's mops; that these mops were an infringement of the defendant's patent, and requesting the defendant to take legal proceedings to restrain the sale of these mops. As no proceedings were taken the plaintiff made a demand upon the defendant, in accordance with clause 10 of the agreement, that it should institute and prosecute actions against the Robert Simpson Company, Limited, and the T. Eaton Company, Limited, both of Toronto, for selling the above mentioned mops. The defendant did not comply with this demand and the plaintiff thereupon brought this action.

In its pleadings the defendant denied that it had made any default in the observance or performance of the terms of the contract by it to be performed, and, by way of counterclaim, asked an accounting by the plaintiff of the O'Cedar products sold, and of the royalties payable thereon. The trial judge gave judgment in the plaintiff's favour (2), holding that the defendant was, by reason of clause 10, under obligation to take legal proceedings against alleged infringers upon demand being made therefor, and he directed a reference to ascertain the damages suffered by the plaintiff by reason of the non-performance by the defendant of its obligation. He also relieved the plaintiff from paying royalties so long as the defendant neglected to take proceedings. The defendant's counterclaim he dismissed with costs. On appeal the First Divisional Court (2) reversed this judgment and dismissed the action. On the counterclaim the defendant was held entitled to succeed, with a reference as to the amount of the royalties due. From that judgment the plaintiff now appeals.

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(1) [1924] S.C.R. 600.

(2) 60 Ont. L.R. 525.

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To the plaintiff's claim that it is entitled to be relieved from liability to pay royalties in respect of the mops manufactured under the mop patent or sold under the trademark, or to damages for breach of contract by reason of the failure of the defendant to protect it against infringements of the patent, there are two answers: The first answer is that given by the First Divisional Court that clause 10 obligated the defendant to prosecute actions against actual infringers only, and that the plaintiff failed to establish that the mops which were alleged to infringe the patent, actually did so.

The second answer is, that the obligation imposed on the defendant by clause 10 is dependent upon the performance by the plaintiff of its covenant "to operate in the Dominion of Canada under the letters patent," and that covenant the plaintiff has not performed. It is admitted by the plaintiff that since 1921, when it commenced to rivet the fabric to the mop head, the mops which it has been manufacturing and selling were not made under the patent. Now it is, in our opinion, quite clear that both clause 10 and clause 11 contemplate the continued manufacture and sale of mops in accordance with the patent. A failure, therefore, on the part of the plaintiff to continue operating under the patent would, we think, render inoperative that part of clause 10 which refers to proceedings to protect the patent from being infringed. In any event, it is difficult to see how the plaintiff, who does not sell mops made under the patent, can suffer any actual loss by reason of its infringement. Without establishing actual loss, in a case such as this, the plaintiff is not entitled to damages, for, as pointed out by Ferguson J.A. in the court below, "damages must be something awarded to compensate for an actual loss rather than a theoretical loss." Under the contract the only royalties the payment of which are to cease in case the patent is declared invalid are those "payable in respect of such patent." The patent has not been declared invalid nor is its validity in issue in this action. The plaintiff covenanted that it would not question its validity during the continuance of the agreement and the defendant cannot derogate from its own grant. Both parties admit its validity. We cannot, therefore, pass upon it. But even if the patent had been declared invalid, the plaintiff,

under clause 11, could only be relieved from the payment of those royalties which are "payable in respect of the patent," that is, those payable on mops manufactured in accordance with the patent and sold in Canada. As the plaintiff was not selling mops manufactured under the patent there were no royalties payable "in respect of the patent" and therefore nothing upon which clause 11 could operate. The plaintiff, it is true, was paying royalties to the defendant, but it was in respect of mops manufactured outside of the patent which were shipped and billed in Canada as "O'Cedar products." We are, therefore, of opinion that the plaintiff had not established any right to be relieved of its liability for the payment of royalties or for damages for failure by the defendant to protect it from infringements of the patent.

As to the trade-mark: The plaintiff performed its covenant "to use the trade-mark," and claims damages for the failure of the defendant to protect it from the infringement thereof. Under clause 10 the defendant is under obligation to institute an action to prevent infringement of the trade-mark, only after the receipt of a written demand therefor. No demand was made. Further, there was no evidence that any infringement existed, or that the plaintiff had suffered loss thereby. This may be accounted for by the fact that this court in the *Rombough case* (1), if it did not expressly declare the trade-mark to be invalid, in effect did so. The agreement, however, makes no provision as to the plaintiff's right in such event. It could doubtless allege a partial failure of consideration and claim damages therefor. But to succeed on that ground the plaintiff would have to submit evidence of infringement and loss suffered thereby. No such evidence is before us. So far as the evidence discloses, the plaintiff may have been the only person in Canada using the trade-mark when this action was commenced.

The plaintiff also claims damages for breach of the covenant contained in clause 18. Upon this claim it is not entitled to succeed. The evidence shews that the defendant reasonably and substantially complied with the covenant. It also shews that the gist of the plaintiff's complaint was not that it was not supplied with copies of the adver-

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tising matter used by the defendant, but that it did not get in advance a synopsis of the ideas which the defendant intended embodying in its future advertisements. The agreement did not require the defendant to furnish such a synopsis. So far, therefore, as the plaintiff's claim is concerned, we agree with the Appellate Division that it should be dismissed.

In reference to the counterclaim, the real question involved is whether Char Mops, Victor Mops, and a polish called Chan Wax, manufactured and sold by the plaintiff, were O'Cedar products, and therefore liable to royalties.

The term "O'Cedar products" was not defined in the agreement, nor was there a word of evidence given at the trial as to what the parties understood it to include. We must, therefore, construe it in the light of the language of the agreement and the conduct of the parties.

In view of

(1) the fact that the plaintiff obtained the exclusive use in Canada of the trade-mark "O'Cedar", and agreed to operate in Canada under the letters patent and to use the trade-mark;

(2) the recital that all articles manufactured under the letters patent should be labelled or marked with the trade-mark, and

(3) the fact that the only part of the plaintiff's business affected by the agreement was manufacturing under the letters patent and selling under the trade-mark,

we are of opinion that the term "O'Cedar products" was intended by the parties to mean and include all articles manufactured by the plaintiff under the letters patent, and all articles advertised or sold by it under the trade-mark.

The Char Mop was designed by one Peters of the plaintiff company. Admittedly it does not come within the defendant's Canadian patent, and it was not advertised or sold under the trade-mark "O'Cedar." It was devised for the purpose of meeting a demand for a cheaper mop than the O'Cedar mops, and was sold at cost so as to hold the trade and increase the volume of factory production. Being sold as one of the plaintiff's products, no doubt it derived some benefit from the advertising of the O'Cedar products, but it is not claimed that the agreement prohibits the plaintiff from manufacturing and selling outside of the agree-

ment. The Victor Mop is in a similar position. At the time of the trial it had been on the market only two months. Like the Char Mop it does not come within the patent, and was not advertised or sold under the trade-mark. In our opinion neither of these mops can be said to be O'Cedar products.

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The polish known as Chan Wax was put up by the plaintiff from a formula arrived at by means of experiments made by one of its employees without any information or assistance from the defendant. In putting it on the market the plaintiff had printed on the box in which the wax was sold the statement that it was manufactured by the makers of O'Cedar products, and in one of its circulars it advertised O'Cedar products and Chan Wax together. These acts, in our opinion, do not justify the inference that the wax was being sold as an O'Cedar product.

Furthermore, in his testimony A. T. Channell stated that within three months after the wax was put on the market he had a conversation with the president of the defendant company in reference to it. His evidence as to what was said is as follows:—

Q. What did you say to him?

A. I told him we were changing the name from "O'Cedar" to "Chan." We were not using O'Cedar but Chan.

There was no contradiction of this. As the defendant was well aware that the plaintiff was selling the wax under the name of "Chan" and not under "O'Cedar", and made no claim for royalties thereon, the proper inference to be drawn, in our opinion, is that the defendant recognized the right of the plaintiff to manufacture and sell the wax, without paying a royalty thereon, so long as it was not advertised or sold under the trade-mark "O'Cedar".

We are, therefore, of opinion that the defendant is not entitled to royalties in respect of these three articles, and, as it was admitted that all other royalties on O'Cedar products had been paid, the counterclaim, in our opinion, should have been dismissed.

The appeal as to the plaintiff's claim should, therefore, be dismissed with costs. The appeal as to the counterclaim should be allowed with costs.

NEWCOMBE J. (dissenting in part).—My difficulty is that the contract does not require that there shall be an in-

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fringement of the mop-patent before the written demand authorized by paragraph 10 of the agreement can have its contractual effect. What the clause says is that:

10. THE LICENSOR shall within one month after receipt of written demand by the licensee institute and prosecute all actions and proceedings necessary to prevent any infringement of the said letters patent, granted, applied for or to be applied for, and said trade-mark within the Dominion of Canada.

This I interpret to mean that the licensor has contracted an absolute obligation, in a reasonable case, upon the specified demand, to institute and prosecute the necessary actions and proceedings. The learned trial judge has decided in effect that proceedings were necessary to prevent infringements, and there is adequate evidence to uphold this finding. The purpose of the covenant, as I read it, was to assure the licensee, who was to use the patent and pay royalties to the licensor for this privilege, that he would be protected in the market to the extent that threatened infringements would be prevented, and that, if, in any action for that purpose, or in any proceedings for revocation, the patent were declared invalid, payment of royalties would be suspended or cease. Thus, in a way, the licensor, in order to earn his royalties, undertook to uphold his title. Obviously the licensor cannot escape liability by refusing to concern himself in alleged infringements which might upon trial result in a declaration of invalidity, and, subject to the provisions of clause 11, terminate the royalties. It would be unjust that the licensor should be allowed to prevent or obstruct the working of clauses 10 and 11, which were designed for the security of the licensee in the conditions for which those two clauses provide.

As to the registered trade-mark, in the circumstances disclosed by the case, it appears, as such, to have become frustrate.

In my opinion, there is a breach of the agreement as expressed, and I would allow the appeal, but I agree in the conclusion as to the counterclaim.

*As to plaintiff's claim, appeal dismissed with costs; as to defendant's counterclaim, appeal allowed with costs.*

Solicitors for the appellant: *McWhinney & Brown.*

Solicitors for the respondent: *Fasken, Robertson, Aitchison, Pickup & Calvin.*