

Federal Court



Cour fédérale

Date: 20220714

Docket: T-751-21

Citation: 2022 FC 1042

Ottawa, Ontario, July 14, 2022

PRESENT: The Honourable Mr. Justice Zinn

BETWEEN:

**DRAGONA CARPET SUPPLIES
MISSISSAUGA INC.**

**Plaintiff/
Defendant by Counterclaim**

and

**DRAGONA CARPET SUPPLIES LTD. and
FLOORENO BUILDNG SUPPLIES INC.**

**Defendants/
Plaintiffs by Counterclaim**

JUDGMENT AND REASONS

Introduction

[1] The Plaintiff moves for summary trial pursuant to Rule 213 of the *Federal Courts Rules*, SOR/98-106 [the Rules] on its claim and the Defendants move for summary trial on their counterclaim.

[2] The underlying action is a claim for infringement and depreciation of goodwill contrary to sections 20 and 22 of the *Trademarks Act*, RSC 1985, c T-13 [the Act], respectively, and passing off contrary to paragraph 7(b) of the Act and the common law. The counterclaim seeks an Order directing the Registrar of Trademarks to expunge the Plaintiff's trademark registrations, pursuant to section 57 of the Act.

[3] The Plaintiff moves for summary trial only with respect to its claim of passing off and relies only on its common law trademark rights, not its rights under its registered trademarks. The Plaintiff seeks an injunction and a reference on damages. With respect to enjoining the Defendants, the Plaintiff seeks the following Declaration and Order:

1. The defendants have directed public attention to their wares, services or business in such a way as to cause or be likely to cause confusion in Canada between their wares, services or business and those of the plaintiff, contrary to section 7(b) of the *Trademarks Act* and the common law of passing off, in Mississauga and the west of the GTA;

2. The defendants and their affiliated companies and their respective officers, directors, agents, employees, successor and assigns, and anyone under their control with knowledge of this injunction are hereby enjoined from directing public attention to their wares, services or business in such a way as to cause or be likely to cause confusion in Mississauga and the west of the GTA, between their wares, services, or business and those of the plaintiff, contrary to section 7(b) of the *Trademarks Act* and the common law of passing off, including by, directly or indirectly, distributing, or selling flooring products from the store premises at 2560 South Sheridan Way, Mississauga, ON and 470 Norfinch Drive, North York, ON in association with the trade name or trademark DRAGONA FLOORING, or advertising such distribution or sale in association with the trade name or trademark DRAGONA FLOORING, including:

(a) by displaying signage featuring the word DRAGONA at either of these store premises;

(b) by advertising these store premises as DRAGONA FLOORING OUTLETS, including on internet websites; and

(c) by displaying the word DRAGONA on invoices or receipts provided to customers at those store premises.

[emphasis added]

[4] The Defendants seek summary trial with respect to their claim for expungement of three of the Plaintiff's registered trademarks: TMA883,960 [the '960 Trademark], TMA883,962 [the '962 Trademark], and TMA 938,501 [the '501 Trademark], collectively the Contested Trademarks.

Background

[5] The background and relationship of the parties have many areas of dispute, some of which shall be addressed below when discussing the Court's findings. Not all areas of disagreement need to be addressed to resolve these motions.

[6] The parties to this action are two businesses run by separate branches of an extended family. Both use trademarks and trade names incorporating the word DRAGONA [the DRAGONA Trademark]. The Plaintiff, Dragona Carpet Supplies Mississauga Inc. [Dragona Mississauga] is owned and managed by Talal "Al" Issawi [Talal]. The Defendants, Dragona Carpet Supplies Ltd. [Dragona Scarborough] and FlooReno Building Supplies Inc. [Flooreno] are managed by Talal's nephews, Abad Hamam [Abad] and Jamal Hamam [Jamal].

[7] Because of the family relationship of the key players and for ease of reference, individuals are referred to herein by their first names. While I refer to the two key businesses as Dragona Mississauga and Dragona Scarborough [collectively the Dragona Businesses], Dragona Scarborough is not only located in Scarborough. It has “distribution centres” in Mississauga and North York, the opening of which prompted this action. It also has a location in Ottawa. Similarly, Dragona Mississauga has a North York location.

History of the Dragona Businesses Prior to 2012

[8] Both Dragona Mississauga and Dragona Scarborough sell various flooring and flooring-related products, such as carpeting, hardwood and vinyl floors, tiles, grout, and tools. Both Dragona Businesses have physical locations but also make deliveries to job sites. The primary target market for both are contractors. However, both also sell products to retailers for resale and directly to the public. Contractors may refer their clients to the Dragona Businesses so they can pick out and pay for a product themselves.

[9] Dragona Scarborough was incorporated in 1984 by Nizar Hamam [Nizar], the father of Abad and Jamal, and brother-in-law of Talal, who is married to Nizar’s sister.

[10] Dragona Mississauga was incorporated in 1992. It was co-founded by Nizar and Talal. Each owned 50% of the shares. Dragona Mississauga opened a physical store at 2550 Goldenridge Road in Mississauga. The Plaintiff alleges that Dragona Scarborough did not have customers in Mississauga at the time it opened; something the Defendants deny.

[11] While Nizar owned 50% of the shares of Dragona Mississauga, the parties disagree as to his role in the business and the relationship between Dragona Mississauga and Dragona Scarborough.

[12] According to the Plaintiff, Nizar was a silent partner and Talal made all decisions relating to Dragona Mississauga. Furthermore, the Plaintiff alleges that there was a verbal agreement between Talal and Nizar [the Territory Agreement]. Pursuant to the Territory Agreement, the Greater Toronto Area [the GTA] was divided at Yonge Street. In his first affidavit, Talal describes this Territory Agreement, as follows:

Under the arrangement Dragona Scarborough would continue to serve its customer base in Scarborough and agreed to restrict its operations using the Dragona name to the east side of Yonge Street, and Dragona Mississauga would develop a new market in Mississauga and agreed to restrict its operations using the Dragona name to the west side of Yonge Street.

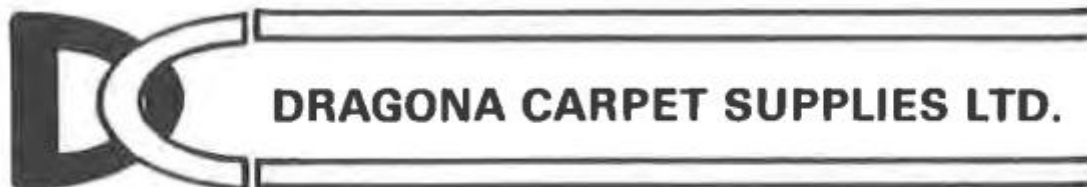
[13] The Defendants deny the existence of the Territory Agreement. The Defendants assert that Dragona Mississauga was a licensee of the DRAGONA Trademark, which remained fully owned by Dragona Scarborough. Under this arrangement, Dragona Mississauga was only allowed to use the name DRAGONA on its one physical location.

[14] The Defendants say that they have continuously sold to clients in all parts of the GTA and beyond, including sales in Windsor, Ontario, well west of Mississauga. The Defendants have provided a “sampling of representative invoices” from clients west of Yonge Street from 2008-2019.

[15] Shortly after it was incorporated, Dragona Mississauga began to expand beyond carpeting into hardwood flooring. To reflect this, it began operating as “Dragona Flooring Supplies,” as opposed to “Dragona Carpeting Supplies.” Dragona Mississauga adopted the following logo [the DC Logo]:



[16] The record before the Court shows that at about the same time, Dragona Scarborough was using the following logo:



[17] It is also clear from the record that at some point Dragona Scarborough began using the tradename Dragona Flooring, but it is unclear exactly when it began doing so. It appears to the Court that it was at least as early as April 2009, while Nizar was still a part owner of the Plaintiff.

[18] Dragona Scarborough now uses the following logo. It appears to have been in use at least as early as July 2012:



[19] While the two Dragona Businesses were, and remain, separate entities, they operated together in some respects. Both businesses largely carried the same products from the same suppliers. The businesses' suppliers allowed Nizar and Talal to use joint sales volumes when calculating volume-based rebates. The suppliers continued to do so until this action, when Dragona Scarborough told the distributors to no longer to calculate rebates based on combined sales volume.

[20] In some cases, there was "inventory sharing" between the Dragona Businesses. A regular customer of one of the Dragona Businesses could use their account at one business to purchase products at the other business, with the first business replacing the second's inventory. For example, a contractor with an account at Dragona Mississauga but working on a job in Scarborough could purchase and pick up materials from Dragona Scarborough but still receive an invoice for their purchase from Dragona Mississauga. According to Talal on cross-examination, this program was not widely advertised and only was offered to approximately a dozen major customers. It was intended to ensure that these customers would remain loyal to their local Dragona Business. Talal says this arrangement ended in 2012, when he purchased Nizar's shares of Dragona Mississauga.

[21] In 2001, Dragona Scarborough expanded to Ottawa. This Ottawa location is operated by 3942783 Canada Inc. Abad has managed this location since it opened in 2001.

[22] In 2010, Nizar and Talal incorporated Surfaces, Inc. [Surfaces]. There is some dispute as to the purpose of this corporation. According to Talal, Surfaces was intended to target the general retail market, as compared with the Dragona Businesses whose primary customers are contractors. Steve Cochrane, a contractor who referred clients to Dragona Mississauga, says that he usually directed referrals to Surfaces, because it was “more retail.” As discussed below, the Defendants claim that Talal told Nizar that he intended to move Dragona Mississauga away from the DRAGONA Trademark and towards the Surfaces brand.

The Parties' Falling Out

[23] At some point prior to 2012, there was a falling out between Nizar and Talal. Talal gave two reasons that caused or contributed to this falling out.

[24] First, Talal says that he became aware that Dragona Scarborough had been contacting retailers west of Yonge Street. In his view, this was contrary to the Territory Agreement. Talal says that this was likely a result of Abad and Jamal becoming more involved in their father's business. Talal says that while he trusted Nizar, he did not feel the same about his sons. His evidence on this point is the following:

One reason that I had concerns in 2012 was that sometime before I had learned that Dragona Scarborough sales representatives were calling on flooring retailers in Mississauga. A small fraction of my business is supplying other retailers that cater more to the public

and I raised the issue with [Nizar] Hamam. He denied his salespeople were crossing Yonge Street, but I thought he knew they were. I suspected that it was as a result of the increasing involvement of Abad and Jamal in the Dragona Scarborough business that this was happening, and it became an issue of contention between me and [Nizar] Hamam. I had not seen this as a significant threat to my business, so I had not pursued the issue any further at that time.

[25] Second, Talal says that Nizar used his shares of Dragona Scarborough as collateral for a loan to support his struggling carpet underpad business. He says that he did not like the idea that if Nizar defaulted on his loan then Talal would become co-owner of Dragona Mississauga with an unknown creditor.

[26] The Defendants dispute that this was the cause for the falling out. The Defendants say that there was no Territory Agreement and Dragona Scarborough had regularly been selling west of Yonge Street both before and after Dragona Mississauga began operating.

[27] One of the Defendants' affiants, Mostapha Elmnini [Mostapha] denies that Nizar used his Dragona Mississauga shares as collateral for the carpet underpad business. Mostapha testified on cross-examination that he was a partner in that business with Nizar and would have known if Nizar had used his shares as collateral. He further testified that the business was not struggling as alleged by Talal. He attests that it closed because there was a fire that destroyed much of the business' property and, after receiving an insurance payout, they decided to wind up the business. As is noted below, the Court finds Mostapha to be a credible witness and accepts his evidence on this point.

[28] Talal's explanation that the falling out was partly because Dragona Scarborough was calling on and trying to sell to retailers in Mississauga is questionable. The record shows that Dragona Scarborough had been selling to retailers in the west of the GTA since its inception. This would have been known to Talal. Indeed, one such customer was a company that was once owned by Talal. Moreover, as described below, Talal had no difficulty selling to retailers in the east of the GTA.

[29] Abad, in cross-examination, testified that the falling out was caused when Talal sold a laminated flooring, created by Nizar's family and sold by Dragona Scarborough throughout the GTA, to Nizar's brother who had a shop across the street from Dragona Scarborough. Although the flooring was created by Dragona Scarborough, it allowed Dragona Mississauga to sell it too. However, Talal sold that flooring to Nizar's brother, whose business was just across the street from Dragona Scarborough, at a lower price, thus undercutting Dragona Scarborough. This caused a family feud. As a result, Nizar stopped speaking to Talal. On cross-examination, Abad described the turmoil this caused:

It was a big event. The whole family know[s], Mohammed, Hamam, my father's brother, Talal's wife's brother, he was involved. Hassan was involved. We're six brothers. We all knew about it. My mother knew about it.

This is a family business. Everybody knew everything. So to say that there was a border -- he [Talal] did it [sold across the street from Dragona Scarborough], but there was a border. There was no border. It upset my father. It wasn't right. He could sell wherever he wanted. We could sell wherever we wanted, and that's what triggered the sale. My father said you know what, live with your conscience. He was upset deeply.

[30] This explanation for the split is supported by the evidence of Mostapha on his cross-examination, and I accept, on the balance of probabilities, that the split was caused by the actions of Talal.

The Share Purchase and the Alleged License Agreement

[31] As the result of the falling out, something had to change. Ultimately, Talal bought out Nizar's shares of Dragona Mississauga and Surfaces, Inc. by way of a share purchase agreement dated January 25, 2012 [the Share Purchase Agreement], making him the sole owner of both companies. The Share Purchase Agreement contains a clause stipulating that the Share Purchase Agreement constitutes the entire agreement between Nizar and Talal pertaining to "the subject matter hereof."

[32] The share purchase was mediated by Mostapha. His evidence is that "Nizar gave it away" for \$350,000. Mostapha testified that the share purchase did not affect which clients the two Dragona Businesses could service based on geography, and "Nizar, through Dragona [Scarborough], continued to own the Dragona name and [Dragona] Mississauga Inc. would continue to use the Dragona name" [emphasis added].

[33] The Defendants allege that as part of the share purchase, Talal agreed to move away from the DRAGONA Trademark. The Defendants allege that Dragona Mississauga was granted a 5-year license to the DRAGONA Trademark [the License Agreement, called the Store Location Agreement by the Defendants]. The Defendants further allege that this license was conditional

on Talal only operating a single store using the DRAGONA Trademark. While Dragona Mississauga was free to open other stores, it could not use the DRAGONA Trademark at those stores. Breaching this condition would cause the license to terminate. In return, Dragona Scarborough would not open any physical stores in Mississauga for this 5-year term. However, Dragona Scarborough was free to continue doing business in Mississauga and opening stores under other names.

[34] The table below summarizes the key differences between the Territory Agreement (as alleged by the Dragona Mississauga) and the License Agreement (as alleged by Dragona Scarborough):

	Territory Agreement	License Agreement
Term	Perpetual	5 years (ultimately extended to be perpetual)
Geography	Each Dragona Business to only operate on its side of Yonge Street	Dragona Scarborough prohibited from opening any physical locations in Mississauga using the DRAGONA Trademark but allowed to serve customers in Mississauga
Number of Stores	No restriction	Dragona Mississauga only entitled to one location using the DRAGONA Trademark

[35] Abad claims that Dragona Scarborough regularly monitored Dragona Mississauga's use of the DRAGONA Trademark after Nizar sold his interest in the company. However, it had no issues with how the DRAGONA Trademark was being used and therefore did not need to exert its control over the trademark.

The Plaintiff's Trademark Registrations

[36] Shortly after Nizar sold his shares to Talal, on March 6, 2012, Talal applied to register two trademarks: a wordmark, DRAGONA FLOORING SUPPLIES, and a design mark, DRAGONA FLOORING – LOGO WITH DC AND PARALLEL LINES, which depicts the DC Logo. The trademarks were registered on August 13, 2014 as the '960 Trademark and the '962 Trademark, respectively. Both registrations are for use in association with the following goods and services:

Goods

- (1) Hardwood flooring, tile flooring, laminate flooring, floor panels, linoleum flooring, engineered flooring, bamboo flooring, unfinished hardwood flooring, porcelain tile flooring, and ceramic tile flooring; Flooring underlayment.
- (2) Sandpaper, varnish, wood stains, floor polish, floor finishing preparations, and floor wax; Adhesive preparations for installation of flooring.
- (3) Exterior entry doors, interior doors, metal doors, revolving doors, and sliding doors.
- (4) Hand tools and power tools for installing, caring for and finishing of flooring.
- (5) Printed and electronic publications, namely, instruction manuals for floor installation and care, and signs.
- (6) Promotional items, namely, key chains, pens, sport water bottles, coffee mugs and fridge magnets.

Services

- (1) Consulting services in the fields of flooring products, and installation and care of flooring.
- (2) Wholesale and retail sale of flooring materials and floor care preparations.

(3) Operating a website providing information in the field of flooring materials, floor installation, and floor care.

[37] Shortly after filing the applications, Talal says he was approached by Mostapha, who, on behalf of Nizar, asked him why he had filed the applications. Talal says that he told Mostapha that he “was the first to use the name ‘Dragona Flooring Supplies’ and wanted to protect the name of the business and keep the name out of trouble because [he] did not trust [Nizar] Hamam’s sons.”

[38] Mostapha has a much different recollection of these events. He says that the discussions regarding the applications were initiated by Talal, who called Mostapha and told him to tell Nizar not to oppose the trademark applications. Mostapha says that Talal told him that he was securing his interest in the DRAGONA Trademark for a couple of years and after that, he did not care for or want the name.

[39] Years later, and just prior to this litigation, Mostapha says he met with Talal at his store where he repeated his understanding that the DRAGONA Trademark belonged to Nizar and Dragona Scarborough. Mostapha says that Talal’s son Sami, heir apparent to Dragona Mississauga, was present at the meeting and confirmed that Nizar owned the DRAGONA Trademark. There is no affidavit from Sami filed on these motions contesting this evidence.

[40] Mostapha’s evidence on cross-examination of these two conversations is as follows:

The first incident was when he called me and told me tell Nizar not to fight me about the name. I only need it for two years. Probably Talal has [a] recording of it 'cause he records all his calls any way.

And the other incident when I went to visit in his place and he called his son and he said who owns Dragona? And his son said, I quote (unintelligible) Nizar, which means Uncle Nizar and he told me see, we have no interest in Dragona, okay. And then Talal told me you know what, I would honestly like you to stay out of it. Don't interfere in our family business. You know how much I trust you. Please don't interfere. Don't give your word. Don't do anything.

I said well, as long as I don't have to interfere I'm not going to interfere but if I was asked to interfere I have to say the truth. I have to say exactly what happened. This was about three months ago, okay.

[41] Mostapha's evidence on cross-examination described the first discussion he had with Talal, in graphic detail:

So Talal was not even interested in the name, you know. It was always Nizar[']s name and if you read in paragraph, maybe the following paragraph, what I said when Talal called me and he told me tell Nizar not to contest the trademark of the agreement because I don't even want the Dragona name. It's shit. That's his word. Dragona name is shit. People spit on it. I'm growing service. I need to protect my interest for the next two years and they can have it.

He did not even want the name. There was never an issue about the name. It was always Dragona Nizar.

[42] Mostapha says he discussed the situation with Nizar, and he told Mostapha that he did not want to contest the applications because everyone, including Talal, understood that Dragona Scarborough owned the DRAGONA Trademark, and he wished to avoid a dispute within the family. Mostapha says that Nizar recognized that Dragona Mississauga was his sister's source of income (through her husband, Talal).

[43] The Court prefers the evidence of Mostapha to that of Talal. Unlike Talal, Mostapha has no direct personal interest in the litigation. The Plaintiff notes that Mostapha has a niece who is married to Abad's brother Kareem Hamam, who is involved in Dragona Scarborough with his brothers. But this distant connection is hardly of significance and there is no evidence that this family relationship may have caused Mostapha to alter or colour his evidence. Furthermore, Mostapha was seen by both Nizar and Talal as a man they trusted to broker their differences.

[44] The Court draws an adverse inference from the fact that the Plaintiff did not file an affidavit from Sami countering Mostapha's evidence that just prior to this litigation it was confirmed that Dragona Scarborough or Nizar owned the DRAGONA Trademark. Moreover, Talal's story, that Nizar learned of the applications and contacted him, strains credulity. How would Nizar come to know of the trademark registration filed by Talal? He and Talal were not on speaking terms, and although he was obviously an astute businessman, he was not well educated. He is described as having been close to illiterate. There is no suggestion that he or anyone on his behalf would be reading the Trademark Journal to find applications filed for the DRAGONA Trademark.

[45] On May 16, 2012, Talal applied for the trademark SURFACES INC. for use in association with identical goods and services to those of the '960 and '962 Trademarks. This trademark was registered on January 19, 2015.

[46] On August 14, 2014, the day after the '960 and '962 Trademark were issued, Talal made a trademark application for the design mark Dragona Flooring Supplies, as shown below:



Dragona Flooring Supplies

[47] This trademark was registered on May 20, 2016 as the ‘501 Trademark. The ‘501 Trademark is for use in association with an expand list of goods and services (new goods and services underlined):

Goods

(1) (1) [*sic*] Hardwood flooring, tile flooring, mosaics, laminate flooring, floor panels, linoleum flooring, luxury vinyl tile (LVT), engineered flooring, bamboo flooring, unfinished hardwood flooring, porcelain tile flooring, and ceramic tile flooring; flooring underlayment; wood and iron stair spindles; sandpaper, varnish, wood stains, floor polish, floor finishing preparations, and floor wax, adhesive preparation for installation of flooring; exterior entry doors, interior doors, metal doors, revolving doors, and sliding doors; hand tools and power tools for installing, caring for and finishing of flooring; bathroom and toilet installations, fittings and fixtures, namely, toilets, bidets, toilet bowls, toilet flushing tanks, vanity countertops, shower heads; kitchen plumbing installations, fittings and fixtures, namely, sinks, faucets, faucet sprayers, handles and flanges; electrical heated floor systems comprising subfloor plywood and coated wiring for use under tile flooring; shower system kits incorporating base with cap for drain, wall with styrofoam backing, shower surrounds; medium-density fibreboard (MDF) and wood moulding, namely, pine, oak, solid wood for use as baseboard, cornice moulding, crown moulding; printed and electronic publications, namely, instruction manuals for floor installation and care, and signs; promotional items, namely, key chains, pens, sport water bottles, coffee mugs and fridge magnets

Services

(1) SERVICES: (1) [*sic*] Consulting services in the fields of flooring products, and installation and care of flooring. (2) Wholesale and retail sale of flooring materials and floor care

preparations. (3) Operating a website providing information in the field of flooring materials, floor installation, and floor care.

[48] The Defendants allege that, since adopting the ‘501 Trademark, the Plaintiff has phased out the ‘962 Trademark (i.e. the DC Logo).

[49] On August 20, 2014, six days after applying for the ‘501 Trademark, Talal applied for the design mark Surfaces & Design, as shown below, for use in association with identical goods and services as those of the ‘501 Trademark:



[50] This trademark was registered on May 20, 2016.

[51] While the applicant for each of these trademark registrations was Talal, all have since been assigned to Dragona Mississauga.

[52] The Plaintiff says that prior to 2021, the Defendants, Abad, and Jamal have never objected to Dragona Mississauga’s ownership of the Contested Trademarks.

Operations following the Share Purchase

[53] In early 2013, Dragona Mississauga began using the Surfaces brand in its store alongside the DRAGONA Trademark. The Defendants argue that this demonstrates that Talal originally intended to phase out of the DRAGONA Trademark in favour of Surfaces. Talal says that he did so to familiarize customers with the Surfaces retail brand prior to its launch.

[54] In mid-2014, Talal opened a Surfaces showroom at 1846 Dundas Street East, Mississauga, across the street from Dragona Mississauga's store. Around the same time, Talal opened a standalone Surfaces location at 3425 Laird Road, also in Mississauga. This location is in the Western end of Mississauga, near Oakville, and approximately 15 km from Dragona Mississauga, which is in Mississauga's eastern end.

[55] The standalone Surfaces location is operated through Dragona Mississauga and not through Surfaces, Inc. It sells the same products as Dragona Mississauga but targets the retail market. Contractors can pick up Dragona Mississauga orders from Surfaces.

[56] Abad's position is that because this store did not use the DRAGONA Trademark, it was not a breach of the License Agreement.

[57] In 2016, Nizar died of cancer. Abad and Jamal took over operations of Dragona Scarborough.

[58] On August 22, 2016, Abad and Talal had a conversation via text message about a “name agreement” as follows:

Abad: Salam did u talk to your lawyer about name agreement ? anything simple basic is all we need. I could get lawyer to draft it up.

Talal: Abad, don't worry about it, I told you will do something, what is the rush?

Abad: no rush ok let me know

Abad: everything my father asked me to do I'm trying to finish just weight on my shoulders

Talal: The last person you should worry about is me, I already talked to Sami about it in case something happened to me, so you shouldn't worry, From my end I will never abuse this situation, I will figure something out for the future, one day we will sit and talk me and you.

[59] The parties disagree as to what this text message exchange is about. Abad says that he contacted Talal in the hopes of formally setting out in writing the terms of the License Agreement and the extent of Dragona Mississauga's rights to use the DRAGONA Trademark. Talal says that this conversation was with respect to the Territory Agreement. No written agreement was ever reached.

[60] The alleged five year License Agreement would have expired in 2017. However, Abad says that given the family ties, Dragona Scarborough continued to allow Dragona Mississauga to use the DRAGONA Trademark. Abad says that through his discussions with Talal, it was understood that the Licensee Agreement would continue in perpetuity as long as the conditions were not breached. Other than the fact that Dragona Mississauga continued to use the DRAGONA Trademark after 2017, there is no corroboration of this statement.

[61] In September 2020, Abad came to Dragona Mississauga's office and told Talal that he and Jamal would be opening a big store in Mississauga, but it would not be using the DRAGONA Trademark. He said he wanted to tell Talal personally. Mostapha testified that he advised Abad to do this in order to maintain family relations. Abad says this was done out of courtesy. Talal says that, while not explicitly discussed, he understood that Abad felt it was necessary to meet with him because of the Territory Agreement.

[62] On September 9, 2020, the Defendant FlooReno Building Supplies Inc. was incorporated, with a principal place of business at 2560 South Sheridan Way, Mississauga. According to Abad, FlooReno leased a building at this location starting around March 2021, and began operations shortly thereafter. This location is approximately 3 kilometres from the Surfaces store.

[63] Another FlooReno location was opened at 470 Norfinch Drive in North York, west of Yonge Street sometime in the first half of 2021.

[64] According to Talal in his first affidavit, he was concerned about the opening of the FlooReno stores:

Not long after, FlooReno opened an approximately 35,000 square foot store at 2560 South Sheridan Way in Mississauga. FlooReno sells a wide range of building supplies, but also offers hard flooring and flooring accessories in direct competition with Dragona Mississauga.

I became concerned about FlooReno cutting into my business in Mississauga. However, since FlooReno was using a different name, I did not raise the matter with them at first. Instead, I took steps to shore-up the Dragona brand with our customers in the west of the GTA.

[emphasis added]

[65] Talal leased a building at the intersection of Dufferin Street and Highway 401 (in North York). At the time of his first affidavit, November 3, 2021, the building was still under renovation. However Dragona Mississauga set up an “Opening Soon” sign and a sign for “Dragona Flooring and Supplies” at this location. Dragona Mississauga also put up “Dragona Flooring Supplies” signage at the Surfaces location at 3425 Laird Road, alongside the Surfaces branding.

[66] The Defendants’ position is that these actions constituted a breach of the License Agreement and it was therefore terminated. As a result, Dragona Scarborough was now allowed to use to the DRAGONA Trademark in Mississauga. In early April 2021, a sign with the words “Dragona Flooring” was erected at the FlooReno building in Mississauga. It does not appear that the FlooReno store was open before the DRAGONA Trademark was used. Abad says that if the Plaintiff had not breached the License Agreement, then he would have maintained the *status quo* and not used the DRAGONA Trademark in association with FlooReno.

[67] A demand letter was sent from the Plaintiff to the Defendants demanding that the sign be removed. The Defendants refused, and the Plaintiff commenced this action on May 6, 2021. At around the same time, a “Dragona Flooring” sign was erected outside of the North York location of FlooReno.

[68] Dragona Mississauga claims that since the “Dragona Flooring” signs have gone up outside the FlooReno locations, its staff have received numerous questions from customers

asking whether FlooReno is connected with Dragona Mississauga. Dragona Mississauga also received a delivery to its Goldenridge Road location that was intended for the Mississauga FlooReno location.

[69] According to Abad, the FlooReno store is intended to carry a wide array of products, beyond just flooring and flooring related products.

[70] While Abad and Jamal remain in charge of FlooReno, the day-to-day management is handled by their brother, Kareem. Abad's evidence is that the FlooReno stores generally use FlooReno branding. However, the FlooReno stores are also distribution centres for Dragona Scarborough. Customers can buy on their Dragona Scarborough account and will receive an invoice and paperwork from Dragona Scarborough if they do so. Dragona Scarborough's website lists the two FlooReno locations as the "Dragona Mississauga Outlet" and the "Dragona Toronto Outlet."

Issues

[71] Provided these motions are suitable for summary trial, the Court will decide two issues: (1) whether Dragona Mississauga has established that the Defendants have engaged in passing off and (2) whether Dragona Scarborough has established that some or all of the Contested Trademarks should be expunged from the Trademarks Register.

Are These Motions Appropriate for Summary Trial?

The Law

[72] A motion for summary trial is governed by Rules 213 and 216. A party may seek a summary trial on all or some of the issues in the litigation.

[73] The factors to consider when assessing whether a summary trial is appropriate “include the amount involved, the complexity of the matter, its urgency, any prejudice likely to arise by reason of delay, the cost of taking the case forward to a conventional trial in relation to the amount involved, the course of the proceedings, and any other matters that arise for consideration” (*Quality Program Services Inc v Ontario (Minister of Energy)*, 2018 FC 971 at para 14, aff’d 2020 FCA 53, leave to appeal to SCC refused, 39144 (8 October, 2020)). Additionally, and regardless of the amounts involved, the complexity of the issues, and the existence of conflicting evidence, the Court may grant summary judgment, “unless the Court is of the opinion that it would be unjust to decide the issue on the motion” (Rule 216(6)).

[74] As is noted above, there is a conflict in the evidence tendered by these parties on some factual issues. In *UPS Asia Group PTE Ltd v Belair Fabrication Ltd*, 2015 FC 1141 at paragraph 46, this Court held that this need not stand in the way of a summary trial provided the Court can decide the disputed facts based on the record:

[A]lthough it is generally inappropriate to decide an application in the face of contradictory affidavit evidence on the main issues, it nevertheless remains within the powers of the Court to decide disputed questions of facts where there is an ability to review the

totality of the evidence and give it appropriate weight if the evidence is adequate.

[75] In short, on a summary trial motion, if the judge “can find the facts as he or she would upon a trial, the judge should give judgment, unless to do so would be unjust, regardless of complexity or conflicting evidence” (*Louis Vitton Malletier SA v Singga Enterprises (Canada) Inc*, 2011 FC 776 at para 96 [emphasis in original]).

The Parties’ Positions on the Appropriateness of Summary Trial

[76] The Plaintiff submits that the issue of passing off is appropriate for summary trial for several reasons:

- urgency to minimize the harm to the plaintiff’s goodwill;
- all witnesses were made available for cross-examination;
- the issues can be fairly understood on the current evidentiary record;
- the threshold issue of whether the plaintiff has goodwill in Mississauga and the west of the GTA does not raise any issue of credibility;
- the relief sought and amounts involved do not justify the additional expense of a conventional trial;
- the proceeding has been brought at an early stage; and
- to secure the just, most expeditious and least expensive determination of this proceeding on its merits.

[77] The Defendants initially opposed the Plaintiff’s motion for summary trial, but offered no submissions in its written materials or at the hearing on this point.

[78] The Defendants submit that the issue of expungement of the Contested Trademarks is appropriate for summary trial.

[79] In its written memorandum, the Plaintiff asks that the Court not issue a ruling on the Defendants' motion to expunge until after the parties have had an opportunity to consider the Court's ruling on the Plaintiff's own motion for summary judgment. It submits that there is no immediate reason to issue a ruling on the Defendants' cross-motion and that once it is known whether the Defendants are enjoined from using the DRAGONA Trademark in association with their FlooReno stores, the parties may be able to reach an agreement that preserves the validity of the registrations to the advantage of all parties.

[80] Because of this unusual submission, the Court inquired at the hearing whether the Plaintiff was contesting that the Contested Trademarks ought to be expunged. The Plaintiff informed the Court that it was consenting to the Defendants' motion, with costs, but without any admissions on the allegations advanced by the Defendants in support of their motion.

Is the Defendant's Motion for Expungement Appropriate for Summary Trial?

[81] Given that it is no longer contested by the Plaintiff, I am satisfied that the Defendants' motion for summary trial on the expungement of the Contested Trademarks is appropriate.

[82] Even if the Plaintiff were opposing the Defendants' motion, in my view it would still be appropriate for summary judgment. Section 57 of the Act gives to this Court the exclusive

jurisdiction to order that any entry in the Trademarks Registry be struck out. An application for expungement may be brought by as a claim or counterclaim in an infringement action or as a standalone application. Subsection 59(3) provides that such standalone applications “shall be heard and determined summarily on evidence adduced by affidavit unless the court otherwise directs.” Given that standalone expungement proceedings are generally heard summarily, it follows that an expungement claim as part of a larger action will generally be appropriate, absent some prejudice, for example where there are concerns of inappropriate case splitting.

[83] I am also of the view that the Plaintiff was not entitled to register the Contested Trademarks. Subsection 16(1) of the Act provides that an applicant is entitled to secure registration unless at the filing date, it was confusing with:

- (a) a trademark that had been previously used in Canada or made known in Canada by any other person;
- (b) a trademark in respect of which an application for registration had been previously filed in Canada by any other person; or
- (c) a trade name that had been previously used in Canada by any other person.

[84] The evidence before the Court establishes that when the Contested Trademarks were obtained, the DRAGONA Trademark had previously been used by Dragona Scarborough with respect to the same goods and services. Accordingly, the registration ought not to have been secured by Dragona Mississauga, and an order that they be expunged is appropriate.

Is the Plaintiff's Motion for Passing Off Appropriate for Summary Trial?

[85] As a consequence of the Plaintiff's consent to the Defendants' motion, the sole live issue before the Court is the Plaintiff's motion for summary trial on its passing off claim.

[86] I am satisfied that this aspect of the claim is suitable for summary trial. The Plaintiff submits that there is some urgency in deciding the issue so as to minimize any harm to its goodwill. I accept that if goodwill is made out, it is important that prompt steps be taken to minimize its depreciation. I also agree with the Plaintiff that the injunctive relief sought and amounts involved do not justify the additional expense of a conventional trial. The parties have filed extensive affidavit evidence and transcripts of the cross-examinations of the affiants are included in the record. While there are factual disputes, the Court can find the facts on the basis of the evidence filed just as it would after a full trial. It is not unjust to either party to proceed by way of summary trial, and doing so will secure the just, most expeditious, and least expensive determination of this proceeding on its merits.

Passing Off

[87] In its Notice of Motion, the Plaintiff originally sought summary trial with respect the entirety of its claim, including, at subparagraph 1(a) that the Defendants "directed public attention to their wares, services or business in such a way as to cause or be likely to cause confusion in Canada between their wares, services or business and those of the plaintiff, contrary to section 7(b) of the *Trademarks Act* and the common law of passing off" [emphasis added].

[88] At paragraph 2 of its Memorandum of Fact and Law, the Plaintiff indicates that it was no longer seeking summary trial for its claims based on the Contested Trademarks. Under the heading “Points in Issue”, the Plaintiff’s Memorandum of Fact only raises the question of whether the Defendants’ activities “constitute passing off, contrary to subsection 7(b) of the Trademarks Act” [emphasis added] and makes no mention of passing off contrary to the common law. However, the Plaintiff’s Memorandum does not indicate that it is no longer seeking summary trial for a claim of passing off under the common law.

[89] In my view, the Plaintiff’s claim for passing off contrary to the common law remains a live issue and should be addressed. The issue can easily be addressed and doing so allows this Court to fully resolve the underlying action.

[90] The Federal Court is a statutory court, and it has “no jurisdiction apart from what is expressly conferred on it by Parliament” (*Celliers du Monde Inc v Dumont Vins & Spiritueux Inc* (1992), 42 CPR (3d) 197 (FCA) at 209). This Court cannot entertain a claim for passing off that is not grounded in the Act. Paragraph 7(b) of the Act is largely equivalent to the common law tort of passing off. However, there is an additional threshold requirement in order for a passing off claim to fall under paragraph 7(b) and, consequently, this Court’s jurisdiction:

[T]he plaintiff must first prove possession of a valid and enforceable trademark, whether registered or unregistered, at the time the defendant first began directing public attention to its own goods and services: see also *Cheung v. Target Event Production Ltd.*, 2010 FCA 255 at para. 20, 409 N.R. 118; *Badawy v. Igras*, 2019 FCA 153 at paras. 2-3, 8-9. This in turn requires, given the definitions of “trademark” and “use” in sections 2 and 4 of the *Trademarks Act*, that the mark have been used by the plaintiff for the purpose of distinguishing its wares or services from those of others: *Nissan Canada* at paras. 15-18.

Sandhu Singh Hamdard Trust v Navsun Holdings Ltd, 2019 FCA 295 at para 39 [*Sandhu Singh*]

[91] This threshold requirement that is not present in the common law. As there is no statutory provision that is fully equivalent to the common law tort of passing off, the Plaintiff's claim under the common law tort is without jurisdiction and dismissed.

[92] The Plaintiff's remaining passing off claim rests on paragraph 7(b) of the *Trademarks Act*. This paragraph provides that "No person shall ... direct public attention to his goods, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his goods, services or business and the goods, services or business of another."

[93] The Defendants submit that this provision requires, as a precondition of passing off, that the Plaintiff prove that it had "a valid and enforceable trademark at the time the Defendants first began directing public attention to its services," which it says was in 1984. The Defendants cite *Sandhu Singh Hamdard Trust v Navsun Holdings Ltd*, 2021 FC 602 at paragraph 49, *Brewster Transport Co v Rocky Mountain Tours & Transport Co*, [1931] SCR 336 at pages 339-340, *Badawy v Igras*, 2019 FCA 153 at paragraph 9, and *Mainstreet Equity Corp v Canadian Mortgage Capital Corporation*, 2022 FC 20 at paragraph 64.

[94] As set out above, paragraph 7(b) of the Act is a codification of the common law tort of passing off, with the additional requirement that the Plaintiff must "prove possession of a valid

and enforceable trademark, whether registered or unregistered, at the time the defendant first began directing public attention to its own goods and services” (*Sandhu Singh* at para 39).

[95] The Defendants submit that the Plaintiff must prove that it had “a valid and enforceable trademark at the time the Defendants first began directing public attention to its services” [emphasis added], which it says was in 1984. The Defendants cite *Sandhu Singh Hamdard Trust v Navsun Holdings Ltd*, 2021 FC 602 at paragraph 49, *Brewster Transport Co v Rocky Mountain Tours & Transport Co*, [1931] SCR 336 at pages 339-340, *Badawy v Igras*, 2019 FCA 153 at paragraph 9, and *Mainstreet Equity Corp v Canadian Mortgage Capital Corporation*, 2022 FC 20 at paragraph 64.

[96] I do not accept this submission. The relevant time in paragraph 7(b) is when the allegedly confusing directing of attention first began, that is to say the directing of attention that gave rise to the passing off claim. This is clear from the wording of paragraph 7(b), which refers not to any directing of attention, but specifically to directing of attention “in such a way as to cause or be likely to cause confusion in Canada.”

[97] The Plaintiff’s claim is that the confusing directing of attention occurred in 2021, when the Defendants placed Dragona Flooring signs on its FlooReno stores. Thus, 2021 is the relevant time and not 1984. At this time, the Plaintiff had been making use of the DRAGONA Trademark for the past 19 years. It was therefore in possession of a valid and enforceable trademark, either in its own right or under licence from Dragona Scarborough. I am satisfied that this preliminary requirement is met by the Plaintiffs.

[98] The three necessary components to establish passing off have been established by the Supreme Court of Canada as (i) the existence of goodwill or reputation; (ii) deception of the public due to a misrepresentation; and (iii) actual or potential damage to the plaintiff (*Ciba-Geigy Canada Ltd v Apotex Inc*, [1992] 3 SCR 120 [*Ciba-Geigy*] at 132).

Goodwill or Reputation

[99] In *Ciba-Geigy* at 134, the Supreme Court of Canada explains that in this context, “goodwill” is to be given a broad definition: “[Goodwill is] a term which must be understood in a very broad sense, taking in not only people who are customers but also the reputation and drawing power of a given business in its market.”

[100] As noted above, the customers for these parties are similar. The evidence before the Court is that the Dragona Businesses sell to three discreet customers: (1) contractors, (2) retailers, and (3) the public. Most sales are made to construction contractors, and the Plaintiff focused its submissions on these customers. In my view, when assessing goodwill, one ought not to unduly restrict the customers to one group. I do recognize that a business may have greater goodwill or reputation among one class of customer. However, if a business has goodwill, it is incumbent on the Court to determine whether the goodwill is among all customers or a subset of them. The question is “Among whom does the business have goodwill?”

[101] A business’s geographic market is also relevant when analysing a business’s goodwill. The question is also “Where does the business have goodwill?”

[102] Talal claims that the Dragona Businesses divided the GTA under the terms of the alleged Territory Agreement. According to Talal, “Dragona Scarborough would continue to serve its customer base in Scarborough and agreed to restrict its operations using the Dragona name to the east side of Yonge Street, and Dragona Mississauga would develop a new market in Mississauga and agreed to restrict its operations using the Dragona name to the west side of Yonge Street.”

[103] I agree with the Defendants that there is no evidence that supports an agreement as described by Talal. While Yonge Street makes a convenient dividing line, aside from Talal’s evidence there is nothing that supports this as an agreed upon line of demarcation, or in fact that there was any line of demarcation.

[104] Joe Comitale, an affiant for the Plaintiff, is the only independent witness to describe an east-west split and he does not refer to Yonge Street as the dividing line. He says: “My recollection of the conversation is that Nizar wanted to expand the business and he was going to cover the east side of the GTA from his Scarborough location and that Al would handle the west side in the new Mississauga location.”

[105] Aside from Talal’s evidence, there is no support for the proposition that with the creation of the Plaintiff, each party to this litigation agreed to restrict its business to either the east or the west of Toronto. Joe Comitale says nothing of the sort. In fact, as noted above, Talal sold flooring to Nizar’s brother in Scarborough. Talal simply cannot assert that neither would sell in the other’s territory, while at the same time doing just that himself. Moreover, there is also evidence that Dragona Scarborough sold to customers in west Toronto.

[106] On the evidence before the Court, I am unable to find any agreement that each party would restrict its activities to its own side of Toronto. Each party has been very successful in business, and any good businessperson will sell wherever and to whomever they can to make a profit.

[107] In short, I am unable to find that there was a Territory Agreement between the parties as is alleged by the Plaintiff.

[108] Even if Talal and Nizar had agreed to divide the GTA, it would not truly matter to a claim of passing off. Any division of territory would be an artificial construct created between the parties. The mere fact that the parties divided the territory would not affect where they actually had goodwill. For example, if Talal and Nizar agreed that only the Plaintiff could expand to Vancouver (which is west of Yonge Street), it would not change the fact that the Plaintiff has no business and no goodwill there.

[109] Similarly, even if the parties had agreed to sell only on their respective side of Yonge Street and expressed this in writing, had one party failed to respect this agreement, that party would have still developed goodwill in the other's territory. Any breach of such an agreement would more properly be the basis of a claim for breach of contract.

[110] The Plaintiff asserts that its goodwill is in the west of the GTA, and the injunction it seeks references that area.

[111] There is evidence that contractors tend to buy from businesses close to their home location. Therefore, it is fair to accept that generally, Dragona Scarborough would sell in the west of the GTA and Dragona Mississauga would sell in the east of the GTA. However, as noted, there is evidence that each sold in the area away from their physical location.

[112] However, I agree with the Defendants that the west of the GTA covers a considerable geography arguably including the “regional municipalities of Halton and Peel, comprising the Municipalities of Brampton, South Caledon, Halton Hills, Mississauga, Milton and Oakville.” I also agree that the Plaintiff has not provided evidence to establish that its goodwill extends that broadly.

[113] The two specific areas where there is a dispute relating to signage are in Mississauga and North York.

[114] I am satisfied that Dragona Mississauga has goodwill in Mississauga. I am not satisfied on the evidence that at the relevant time it had any goodwill in North York. It had no store location there, and the Plaintiff’s affiant, Steve Cochrane, stated that deliveries made by the Plaintiff are made “only if it’s very close to the store” and that it does not deliver in North York.

[115] Therefore, I find that at the time this litigation commenced the goodwill associated with Dragona Mississauga was generally restricted to Mississauga but that there was also some goodwill in Scarborough where it has made sales.

[116] Similarly, I find that Dragona Scarborough has goodwill in Scarborough, and also some goodwill in Mississauga where it has made sales.

[117] To this extent, there is some overlap in the goodwill of the Dragona Businesses; however, it is beyond question that each has significant goodwill in the area closest to its physical location.

[118] Having found that there is goodwill in the DRAGONA Trademark in Mississauga; the Court must address whether it is goodwill belonging to the Plaintiff, or by virtue of section 50 of the Act, it belongs to the Defendants.

[119] Subsection 50(1) of the *Trademarks Act* deals with the licensing of trademarks.

50 (1) For the purposes of this Act, if an entity is licensed by or with the authority of the owner of a trademark to use the trademark in a country and the owner has, under the licence, direct or indirect control of the character or quality of the goods or services, then the use, advertisement or display of the trademark in that country as or in a trademark, trade name or otherwise by that entity has, and is deemed always to have had, the same effect as such a use, advertisement or display of the trademark in that country by the owner.

50 (1) Pour l'application de la présente loi, si une licence d'emploi d'une marque de commerce est octroyée, pour un pays, à une entité par le propriétaire de la marque, ou avec son autorisation, et que celui-ci, aux termes de la licence, contrôle, directement ou indirectement, les caractéristiques ou la qualité des produits et services, l'emploi, la publicité ou l'exposition de la marque, dans ce pays, par cette entité comme marque de commerce, nom commercial — ou partie de ceux-ci — ou autrement ont le même effet et sont réputés avoir toujours eu le même effet que s'il s'agissait de ceux du propriétaire.

[120] There is no written license agreement. The Defendants submit that it is open to the Court to infer from the evidence that a license agreement exists (see *TGI Friday's of Minnesota, Inc v Canada (Registrar of Trade Marks)*, [1999] FCJ No 682 (CA) [*TGI Friday's*] and *Stork Market Inc v 1736735 Ontario Inc*, 2017 FC 779 [*Stork Market*]).

[121] In *TGI Friday's*, the trademark was registered in the name of Friday's Ltd., of which Mr. Lindy was the President and major shareholder. In 1977, the trademark was assigned to Mr. Lindy personally. Notwithstanding the assignment, Friday's Ltd. continued to use the trademark, to the exclusion of Mr. Lindy. The Registrar expunged the trademark on the basis that there was no evidence that Mr. Lindy was using it.

[122] The Federal Court of Canada – Appeal Division at paragraph 9 accepted that a license may be reasonably inferred from the evidence such that the use by Friday's Ltd. as the assignee was deemed use by Mr. Lindy:

While it is apparent that Mr. Lindy did not grant the company a written license in 1977 for the period up to the date of the section 44 notice, the existence of an oral license and control by Mr. Lindy, the appellant argues, may be reasonably inferred from the evidence. Mr. Lindy remained in the office of president and the major shareholder of the company up to the date of the section 44 notice during which period the company carried on the bar and restaurant operations in association with which the mark was used. In our view, an inference may be drawn from these facts that the company used the mark under oral license from Mr. Lindy or under an arrangement that was tantamount to an oral licence and that the mark remained under his direct or indirect control. The effect was to permit the company to use the trade mark in the manner that it was used in the company's operations.

[emphasis added]

[123] In *Stork Market*, it was argued that the trademarks were registered in the name of Mr. Fronte but used only by the Plaintiff. It was submitted that there was no evidence of a license agreement or that Mr. Fronte used the trademark. At paragraphs 20-21, this Court accepted that there was an oral licence agreement between Mr. Fronte and the corporate plaintiff:

[20] I accept the Plaintiffs' proposition that the required license need not be in writing and that, where the owner of a trade-mark also controls a closely held corporation that uses the mark, an inference may be drawn that the corporation uses the mark under oral license from the owner, with the owner asserting the requisite control over the character or quality of the wares or services (see *TGI Friday's of Minnesota Inc v Canada (Registrar of Trade Marks)* (1999), 241 NR 362 (FCA); *Fairweather Ltd v Registrar of Trade-marks*, 2006 FC 1248; *Smart & Biggar v Powers* (2001), 16 CPR (4th) 276 (TM Bd)).

[21] The Statement of Claim alleges that Mr. Fronte is the sole director, officer and shareholder of Stork Market. The Plaintiffs did not adduce evidence explicitly addressing Stork Market's corporate structure. However, Mr. Fronte testified that he is the owner-operator of Stork Market and, other than one week during which his brother performed the delivery of lawn signs, its sole employee. It is clear from Mr. Fronte's testimony that he started and runs the company. In accordance with the applicable jurisprudence, I find that this is an appropriate case in which to infer an oral license from Mr. Fronte to Stork Market and that Mr. Fronte exercises the requisite control over the wares and services. Therefore, the Plaintiffs have the benefit of s. 50(1) of the *Trade-marks Act*, and the Defendants' argument that the Fronte Marks are not distinctive of a single source does not represent a basis to find that the marks are invalid.

[124] Dragona Scarborough was incorporated on October 9, 1984. On incorporation and for many years, Nizar was the principal of Dragona Scarborough and involved in multiple aspects of the business. It has used the DRAGONA Trademark in its business since its incorporation. It had goodwill associated with the DRAGONA Trademark prior to the creation of the Plaintiff.

[125] When asked on cross-examination about the reputation of Dragona Scarborough in the GTA in the period prior to the incorporation of the Plaintiff, Talal stated that it was doing well in the area and was known.

Q. I just want to know what you knew as somebody in the trade.

Can you tell me the reputation of Supplies Limited [Dragona Scarborough] from 1984 to early '93 in the GTA?

A. You want me to tell you how I think he was doing?

Q. Sure.

A. He was doing well and, you know, that's all I know. He was doing well in the business.

Q. All right. And if he was doing well in business, do you think he was known?

A. Yes, he was.

[126] Based on this admission, and the evidence of sales in areas other than Scarborough, I find that while that goodwill was centred in Scarborough, it extended beyond to include Mississauga and other areas within the GTA.

[127] On December 21, 1992, Nizar and Talal incorporated Dragona Mississauga. They were equal partners.

[128] There is a disagreement between the parties as to the reason the Plaintiff was incorporated and commenced business. Talal had been a carpet installer. In 1986, he opened Droven Carpet Supplies, a carpet supply business, in Mississauga. He says that he operated Droven Carpet Supplies for about two years and then "exited the business to open another

flooring supply business.” The purchasers of Drogen Carpet Supplies deal with Dragona Scarborough.

[129] Talal’s new business, Standard Flooring, was located in Brampton. He sold that business in the early 1990s and resumed work as a carpet installer. He attests that in 1992, he was ready to open another business. He says that a big supplier of Dragona Scarborough, Robert, had a Mississauga distributor that recently moved to Brampton, so there was a vacant store in Mississauga. He saw an opportunity.

[130] Talal’s evidence as to how the joint venture with Nizar came about is described by him in his cross-examination as follows:

Q. When you first opened the new company with Nizar in December of 1992 in Mississauga Inc, would you agree that Nizar was trying to expand the business of Dragona?

A. Well, I mean, we tried to open a new location in Mississauga. That was discussed, that’s it.

I was going to open a location in Mississauga anyway and Nizar convinced me we can open it together and we can call it Dragona. That is what we agreed on.

[emphasis added]

[131] The Defendants assert that the Plaintiff was incorporated “for the purpose of expanding [Dragona Scarborough’s] business to include a physical store in Mississauga.” Although Talal tried to skirt admitting to that, I find that it was opened to expand the Defendants’ business to include a physical location in Mississauga. It may be that Talal had an idea to open a new

business in Mississauga, but what eventually happened is that Nizar funded half the new business and offered the DRAGONA name to it.

[132] Talal asserts that although he and Nizar were both officers and directors of the Plaintiff, it was he who ran the business of Dragona Mississauga and dealt with the suppliers and customers. He describes Nizar as a “silent partner.” He suggests that Nizar exercised no control of that business.

[133] However, it is clear from the record that Talal and Nizar and the Dragona Businesses had significant dealings. It is also relevant that Dragona Scarborough was the first of these businesses. When Dragona Mississauga commenced business, there were established customers, suppliers, and a profitable way of doing business that inured to its benefit.

[134] Both Dragona Businesses carried largely the same products, from the same suppliers. The businesses’ suppliers allowed Nizar and Talal to use joint sales volumes in calculating volume-based rebates. These suppliers continued to do so until this action, when Dragona Scarborough told the distributors not to calculate rebates based on combined sales volume.

[135] In some cases, there was “inventory sharing” between the Dragona Businesses. A regular customer of one of the Dragona Businesses could use their account at one business to purchase products at the other business, with the first business reimbursing the second for its inventory. For example, a contractor with an account at Dragona Mississauga but working on a job in Scarborough could purchase and pick up materials from Dragona Scarborough but still receive

an invoice for their purchase from Dragona Mississauga. According to Talal on cross-examination, this program was not widely advertised and was only offered to approximately a dozen major customers. It was intended to ensure that these customers would remain loyal to their local Dragona business. There was an understanding that what was good for one of the businesses was good for the other. Talal says this arrangement ended in 2012, when he purchased Nizar's shares of Dragona Mississauga.

[136] On this evidence, I infer that there was an oral licence agreement between the parties.

[137] Although Nizar did not hold a majority interest in the Plaintiff from 1992 to 2012, he was a 50% shareholder which does provide a significant measure of corporate control. Moreover, he agreed to let the Plaintiff use the DRAGONA Trademark and he and his brother-in-law Talal had significant interactions directly affecting the business in Mississauga.

[138] While Talal described Nizar as a silent partner, it would be unfair to characterize him as a mere financial backer. Even if Nizar was a hands-off owner of the Plaintiff, had Dragona Mississauga had not been financially successful, it is highly unlikely that Nizar – a successful businessman in the same line of business as the Plaintiff and someone with a strong interest in protecting the reputation of the DRAGAONA Trademark – would have remained on the sidelines.

[139] Using combined volumes for supplier rebates, Dragona Scarborough was also able to influence what goods the Plaintiff sold. The Plaintiff would have had a significant incentive to

purchase the same goods from the same suppliers as Dragona Scarborough in order to reduce inventory costs. Even after 2012, the Plaintiff carried largely the same goods as Dragona Scarborough, likely at least in part the result of the combined rebates.

[140] For these reasons, I find that Dragona Scarborough, through Nizar, indirectly controlled the use of the DRAGONA Trademark during the period of use by the Plaintiff from 1992 to 2012. Therefore, any goodwill associated with the mark's use by the Plaintiff in that period accrued to the benefit of the Defendants pursuant to subsection 50(1) of the Act.

[141] The Plaintiff submits that if there was a license agreement, it ended when Nizar sold his shares in Dragona Mississauga to Talal.

[142] In evidence is the Share Purchase Agreement, dated January 25, 2012. There are two recitals to the Share Purchase Agreement which clearly inform that the agreement was about the sale and purchase of the shares of the Plaintiff owned by Nizar:

1. The Vendor holds 2 issued and outstanding Common Shares of Dragona and issued and outstanding Common Shares of Surfaces, which are fully paid and non-assessable (the "**Shares**").
2. The Purchaser desires to purchase the Shares and the Vendor desires to sell the Shares.

[143] The Plaintiff points to Article 1.4, headed "Entire Agreement", which reads as follows:

This Agreement, together with the Closing Documents, constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, letters of intent, negotiations, discussions and understandings, written or oral, between the Parties. There are no representations, warranties, conditions, other agreements or acknowledgements, whether direct

or collateral, express or implied, that form part of or affect this Agreement, or which induced any Party to enter into this Agreement or on which reliance is placed by any Party, except as specifically set forth in this Agreement or in the Closing Documents.

[144] I am not persuaded that this clause assists the Plaintiff as regards the oral licence agreement that I have found. First, the agreement relates to a sale of shares only, and the licence agreement is well outside that topic. Second, the agreement was between two individuals, and any dealings with the DRAGONA Trademark would have required that Dragona Scarborough and Dragona Mississauga be parties to the Agreement.

[145] In *Empresa Cubana Del Tabaco Trading v Shapiro Cohen*, 2011 FC 102 at paragraph 84, this Court observed that there are three main methods by which owners of trademarks can demonstrate the control required to benefit from the deeming provision in subsection 50(1) of the Act. They can clearly swear to the fact that they exert the requisite control. They can provide evidence that demonstrates that they exert the requisite control. Or they can provide a copy of a license agreement that explicitly provides for the requisite control.

[146] While these are the “main methods”, they are not the only methods to demonstrate control.

[147] The case before the Court is unique. I have found that there was a license agreement at least until 2012. After the share sale, the Defendants had no corporate control over the Plaintiff’s business. However, Abad attests that he kept an eye on its business and had no issue with the manner in which it was using the DRAGONA Trademark, until the events that precipitated this

litigation. Given the family connection and the similarity of goods sold and customers sold to, it is not surprising that examples of actual control are few.

[148] Moreover, there is the evidence of Mostapha, which the Court accepts, that Talal and his son Sami acknowledged and accepted that the DRAGONA Trademark belonged to Nizar and the Defendants. An acknowledgement of ownership in the trademark must also be seen as an acknowledgment of the owner's right to control the use of the mark. If it were otherwise, that acknowledgement would mean nothing.

[149] I therefore find that there continued to be a license of the DRAGONA Trademark after 2012.

[150] The Defendants have alleged the existence of a License Agreement. According to the Defendants, the License Agreement was for an initial 5-year term and restricts the Plaintiff's use of the DRAGONA Trademark to one physical location in Mississauga and forbids the Dragona Scarborough from opening a physical location in Mississauga. The Defendants argue that the Plaintiff has now breached the License Agreement, and the License Agreement is now terminated. This would have the effect of allowing the Defendants to operate in Mississauga and preventing the Plaintiff from continuing to use the DRAGONA Trademark.

[151] I can find no evidence to support the Defendants' claim that the license of the DRAGONA Trademark to the Plaintiff was initially limited to a five-year term after Nizar sold his shares in the Plaintiff. As Dragona Mississauga's use of the DRAGONA Trademark

continued without complaint, and the Defendants claim that the license term was extended to be perpetual, nothing turns on this.

[152] It is certain that when Nizar agreed to join with Talal in 1992 to open the Plaintiff's store in Mississauga and call it Dragona, there was only one physical location. Just as there is no evidence to support the existence of the alleged Territory Agreement, there is no evidence that either ever considered increasing the number of locations, until the events giving rise to this action. There is therefore nothing to suggest that either restriction alleged by the Defendants is a term of the Plaintiff's license to use the DRAGONA Trademark.

[153] As the Plaintiff's use of the DRAGONA Trademark has at all times been under license from Dragona Scarborough, I find that any goodwill associated with the DRAGONA Trademark in Mississauga is that of the trademark owner, Dragona Scarborough, pursuant to subsection 50(1) of the Act.

[154] Accordingly, as the Plaintiff has no goodwill in the DRAGONA Trademark, the passing off action cannot succeed.

Misrepresentation

[155] Had I not found that the goodwill accrued to the Defendants throughout, or if I am later reversed on that finding, I am not satisfied that any misrepresentation by the Defendants has been made out.

[156] In order to make out misrepresentation, the Court is required to find that the Defendants have misrepresented their goods, services, or business (in Mississauga) to be that of the Plaintiff.

[157] A trademark may be concurrently used by two separate businesses even within the same geographic area. It is said that when parties have jointly used and jointly benefited from the use of a mark, neither can exclude the other from using it in association with their respective businesses (see *Edward Chapman Ladies' Shop Ltd. v. Edward Chapman Ltd.*, 2007 BCCA 370 at para 50).

[158] In this case, Dragona Scarborough was known throughout the GTA prior to 1992, and it continued to sell throughout the GTA. As such, it was and remains entitled to use the DRAGONA Trademark throughout the GTA, even if some confusion is created because of the use by Dragona Mississauga of the DRAGONA Trademark in Mississauga.

[159] The Defendants cite the decision in *Banquet & Catering Supplies Rental Ltd v Bench & Table Rental World Inc* (1979), 52 CPR (2d) 71, and the Court's observation at pages 73–74:

But confusion, *per se*, is insufficient to constitute passing off. In this connection, Harold A. Fox, the leading Canadian commentator on the subject, in *Canadian Law of Trade Marks and Unfair Competition*, 2nd ed. (1956) writes [p. 731]:

The mere fact that confusion will result is not the vital factor in a passing off action. Unless it can be shown that a proprietary right of the plaintiff has been improperly invaded the plaintiff is without remedy. As Viscount Simon observed in *Marengo v. Daily Sketch and Sunday Graphic Ltd.*: ((1948) 65 R.P.C. 242 at 245) "It is in this sense, as I understand it, that the Master of the Rolls prefaced his judgment with the observation:

“No one is entitled to be protected against confusion as such. Confusion may result from the collision of two independent rights or liberties, and where that is the case neither party can complain: they must put up with the results of the confusion as one of the misfortunes which occur in life.”

[160] Here, Dragona Scarborough had the right, as it has had since 1984, to use the DRAGONA Trademark in Mississauga. It could be said that the right is strengthened if a license was in existence, as I have found between 1992 and 2012. If there was no license after 1992, and Dragona Mississauga created goodwill after 1992 on its own behalf, then the resulting confusion is but “one of the misfortunes which occur in life.” It does not constitute passing off.

[161] The same point was made by the New Brunswick Court of Appeal in *J&A McMillan Ltd v McMillan Press Ltd* (1989), 27 CPR (3d) 390 at 397, citing *Halsbury’s Laws of England*, 3rd ed, vol 48, p 107, para 153:

Confusion can also arise, without there being a misrepresentation, where a defendant has a special right to use a name either by reason of it being his own name or by reason of established concurrent use. In cases of this kind the courts have proceeded on the basis that the defendant is doing no more than making a truthful statement of fact which he has a legitimate interest in making and the fact that it is misapprehended by some persons is not the defendant's responsibility unless he does something additional to increase the risk of confusion; although these cases have been explained on the basis that there is a misrepresentation but the defendant has a special privilege to make it.

[162] For these reasons, even if the Plaintiff can establish goodwill, there is no misrepresentation by the Defendants and the passing off action cannot succeed.

Conclusion

[163] The Defendants' motion for summary judgment is granted and the Defendants' counterclaim is allowed. The Contested Trademarks will be ordered to be expunged and the Plaintiff's claims for trademark infringement and depreciation of goodwill under sections 20 and 22 of the Act will be dismissed.

[164] The Plaintiff's motion for summary judgment is granted; however, the Plaintiff has failed to prove passing off contrary to paragraph 7(b) of the Act, and its claims under that paragraph will be dismissed. Furthermore, its claim for passing off under the common law is dismissed.

[165] As all of the Plaintiff's claims are dismissed, this action will be dismissed with costs to the Defendants.

[166] If the parties are unable to agree on the quantum of costs, then within 2 weeks of this decision, the Defendants may file written submissions not exceeding 5 pages, and the Plaintiff may file its responding written submissions, not exceeding 5 pages, within 2 weeks thereafter.

JUDGMENT in T-751-21

THIS COURT’S JUDGMENT is that:

1. The Plaintiff’s action is dismissed;
2. The Defendants’ counterclaim is allowed;
3. Registration Nos. 883,960, 883,962, and 938,501 will be expunged from the Trademarks Register in compliance with the provisions of subsection 57(1) of the *Trademarks Act*; and
4. The Defendants are entitled to their costs on the claim and counterclaim, regarding which the Court reserves jurisdiction.

“Russel W. Zinn”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-751-21

STYLE OF CAUSE: DRAGONA CARPET SUPPLIES MISSISSAUGA INC.
v DRAGONA CARPET SUPPLIES LTD. AND
FLOORENO BUILDNG SUPPLIES INC.

PLACE OF HEARING: HELD BY VIDEOCONFERENCE

DATE OF HEARING: MARCH 14-18, 2022

JUDGMENT AND REASONS: ZINN J.

DATED: JULY 14, 2022

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