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Deli wars! Unauthorised Dunn's franchisees and their directors are liable for infringement

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Introduction

In *Dunn's Famous International Holdings Inc v Devine*, the Federal Court recently decided on a matter of alleged trademark and copyright infringement. The case involved a Quebec-based franchisor, Dunn's Famous International Holdings Inc, and unauthorised franchisees operating in Ontario that had acquired their franchises from a third party falsely claiming to own the Dunn's franchise system and that was involved in a trademark-ownership dispute with Dunn's – which Dunn's ultimately won. Dunn's sought relief under the Trademarks Act and Copyright Act against the various unauthorised franchisees and their directors for infringement of its rights under those statutes.

The Federal Court rendered a default judgment in favour of the franchisor, confirming Dunn's ownership of the trademarks and finding infringement on the part of the unauthorised franchisees. The Court based its determination of damages on the duration of the unauthorised franchise operations and considered the personal liability of the directors involved. The Court also ordered the unauthorised franchisees to transfer certain domain names that incorporated Dunn's trademarks. However, the Court refuted the franchisor's copyright claim in respect of the unauthorised franchisees' websites because it failed to convince the Court of its authorship or ownership of the content reproduced thereon.

This case is an important example of how franchisors can use trademark and copyright legislation to protect their brand and enforce ownership of their franchise system. It also serves as a reminder for franchisors to ensure that the copyright in various materials used in the franchise system is well protected, failing which they will likely be unable to prevent others from copying or otherwise using them.

Facts

Between 2007 and 2018 an unauthorised third-party licensor entered into a series of licence agreements with unauthorised franchisees that purported to provide licences in relation to trademarks owned by Dunn's. After sending multiple cease and desist letters to the unauthorised franchisees, Dunn's filed a claim for trademark and copyright infringement.

The defendants responded to Dunn's trademark and copyright allegations against them by contesting Dunn's ownership of the trademarks. However, in separate proceedings, the unauthorised licensor recognised on consent Dunn's ownership of the trademarks and the invalidity of the franchise agreements it had entered into with the unauthorised franchisees.

Therefore, Dunn's sought damages for trademark infringement, passing off, depreciation of goodwill, false and misleading advertising and copyright infringement from the unauthorised franchisees and their directors, as well as the transfer of certain domain names owned by the unauthorised franchisees that incorporated the Dunn's trademarks. Dunn's also sought damages for copyright infringement based on the unauthorised franchisees' reproduction of Dunn's logo and website structure on their own websites, including the FAQs in the franchising section of Dunn's website.

Decision

The Federal Court recognised Dunn's ownership of the trademarks at the heart of the dispute and found that the unauthorised franchisees had deliberately engaged in activities that caused trademark infringement, passing off, depreciation of goodwill and false and misleading advertising.

In determining damages, the Court declared that the unauthorised franchisees had to pay the equivalent of Dunn's average initial franchise fee for each unauthorised location and the amount of annual royalties that Dunn's typically received from its authorised franchisees, based on the duration of the illegal activities of each unauthorised franchisee. The calculation of such

damages was based on payments that the unauthorised franchisees would otherwise have had to have made to Dunn's to operate franchises during the relevant periods, plus punitive damages.

The Court then evaluated the personal liability of the unauthorised franchisees' directors based on the test from *Mentmore Manufacturing Co Ltd v National Merchandise Manufacturing Co Inc*,⁽¹⁾ which established that directors may have personal liability for trademark infringement in circumstances where it is reasonable to conclude that the director's intention was the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of infringement.

The Court determined that the majority of the directors should be held personally liable for the trademark infringement based on:

- their continued infringing conduct despite being provided with multiple cease and desist notices;
- their personal involvement in the invalid agreements and operations; and
- their professional links with one another.

A website presenting the directors as contact persons for Dunn's franchising opportunities was among the elements supporting this conclusion.

The Court also ordered the unauthorised franchisees to transfer the domain name registrations pertaining to domain names that incorporated Dunn's trademarks.

Nevertheless, referring to a similar instance in *Milano Pizza Ltd v 6034799 Canada Inc*,⁽²⁾ the Court could not find that Dunn's had established authorship or ownership of the content reproduced from its website, such as the Dunn's logo and FAQ webpage. Thus, the court set aside the copyright claim.

Comment

Canadian franchisors can certainly rely on the rights and remedies provided under the Trademark Act to protect their brand. Beyond such protections, franchisors can notably learn from Dunn's proactiveness in sending cease and desist letters and recording infringing activity online, for example, which proved valuable in its claim.

The quality of the evidence that Dunn's provided was the foundation for the remedies granted in this case. Franchisors should be diligent and take appropriate measures to safeguard their trademarks, proactively challenging any potential infringement and recording anything that hints at third-party infringing activities. As seen in this case, an unauthorised licensor can set up an organised chain of unlicensed operations that will require appreciable efforts, a multiplicity of legal proceedings and significant professional fees to resolve on the part of a legitimate franchisor, potentially after years of confusion in the marketplace. In the case at hand, the defendants' actions were intricately related for the most part. The Court had the complex task of untangling their connection with one another and establishing the timeline of the infringing operations to assess the damages owed to the franchisor. This was also necessary for determining the personal liability of the individuals involved.

This case also serves as a crucial reminder for franchisors to ensure that they own the copyright in franchise materials such as websites, logos, marketing materials and manuals, and that they obtain formal written assignments of copyright from any third parties contributing to the development of such materials.

For further information on this topic please contact Bruno Floriani, Marissa Carnevale or Tanya Nakhoul at Lapointe Rosenstein Marchand Melançon LLP by telephone (+1 514 925 6300) or email (bruno.floriani@lrmm.com, marissa.carnevale@lrmm.com or tanya.nakhoul@lrmm.com). The Lapointe Rosenstein Marchand Melançon LLP website can be accessed at www.lrmm.com.

Endnotes

(1) 1978 FCA 2037.

(2) 2018 FC 1112.