

What a Pickle: Unauthorized Deli Franchisees Ordered to Pay Trademark Damages, but Escape Copyright Liability

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In *Dunn's Famous International Holdings Inc. v. Devine*,¹ the franchisor obtained default judgment for trademark infringement and related relief against unauthorized "franchisees" who had acquired their franchises from a party that had claimed, unsuccessfully, to own the franchise system. However, the franchisor's copyright claim failed because it could not prove that it owned the copyright in its webpages. Although the facts of the case are unique, its lessons may apply more broadly, including where a former franchisee fails to de-identify. It is also a helpful reminder to franchisors to pay close attention to copyright ownership, especially when entering Canada from other countries where different rules might apply.

Background

Dunn's is a multi-generational family business that operates in the space of retail food product development, marketing, licensing and wholesale distribution. The case arose out of a dispute between two ownership groups that both claimed to own the trademarks and tradenames in question (the DUNN's Trademarks) and to be the rightful franchisor of the Dunn's Famous brand.

The ownership issue was resolved on consent in favour of the plaintiff, Dunn's Famous International Holdings Inc. (Dunn's). However, that was not the end of the dispute. The other party (the Unauthorized Franchisor) had purported to grant several franchises, including master franchise rights, to several entities that had operated restaurants in association with the trademarks. The Unauthorized Franchisor acknowledged that its agreements with those entities were "invalid" because it had not owned the trademarks that it purported to license to them.

Dunn's action continued against the unauthorized franchisees and their directors (the Defaulting Defendants). Dunn's sought damages for trademark infringement, passing off, depreciation of goodwill, false and misleading advertising, and copyright infringement, as well as delivery up of certain domain names. The Defaulting Defendants and the directors did not defend the action, and Dunn's brought a motion for default judgment against them.

The Trademark Dispute

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The Court accepted that Dunn's is the sole and exclusive owner of the DUNN's Trademarks. It found that the Defaulting Defendants had profited from the unauthorized use of the DUNN's Trademarks, deliberately engaging in actions that caused trademark infringement, passing off, depreciation of goodwill, and false and misleading advertising.

The Court calculated damages based on the average franchise fees and annual royalty amounts that Dunn's typically receives from its (authorized) franchisees. In particular, the Court awarded damages equal to what the Defaulting Defendants would have paid to Dunn's to operate franchises during the relevant time periods, plus punitive damages.

Many of the individual defendants who were the directing minds of the unauthorized franchisees were held liable in their personal capacities based upon the "*Mentmore*" test.² The Court explained that, under that test, corporate directors "can have personal liability for infringement of intellectual property rights, where there are circumstances from which it is reasonable to conclude that the purpose of the director 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." Dunn's satisfied that test by establishing that certain of the individual defendants continued their infringing conduct despite being provided with multiple notices of the infringement, or had long-standing relationships with the Unauthorized Franchisor, among other reasons.

In addition to damages, the Court ordered the Defaulting Defendants to transfer certain domain names that incorporated the DUNN's Trademarks.

The Copyright Dispute: Falling Short

Dunn's claimed that the Defaulting Defendants had copied the "structure of the Plaintiff's [Dunn's] website, including the FAQ questions in the Franchising section of the website," among other works, and that such copying amounted to copyright infringement. Dunn's sought damages under the *Copyright Act*, including punitive and exemplary damages.

The Court rejected Dunn's claim, finding that the evidence filed by Dunn's fell short of what was required to prove that Dunn's actually owned the copyright in the webpages and other works. For example, the evidence did not identify who was the author (creator) of the works or the basis of Dunn's claimed ownership of the copyright (e.g., by way of assignment). The Court cited another decision, *Milano Pizza Ltd v 6034799 Canada Inc*,³ also involving the restaurant industry, in which the owner of a pizzeria chain's claim of copyright infringement was dismissed on similar grounds.

Key Takeaways

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Although the case involved unique facts and was not defended, it will be of interest to franchisors who encounter unauthorized use of their intellectual property, whether by former franchisees or entirely unrelated third parties. Notably, many aspects of a franchise system may be protected by copyright, including manuals, logos, marketing materials, websites,⁴ and certain types of forms.⁵ Franchisors are well-advised to ensure that they own the copyright in such materials, including when engaging third parties to create such materials, and to consider registering their copyright, which can offer many benefits.⁶

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¹ *Dunn's Famous International Holdings Inc. v. Devine*, 2021 FC 64.

² See *Mentmore Manufacturing Co Ltd v National Merchandise Manufacturing Co Inc* (1978), 89 DLR (3d) 195 (FCA)

³ 2018 FC 1112 <<https://canlii.ca/t/hvxtg>>.

⁴ For example see: *United Airlines, Inc. v. Cooperstock*, 2017 FC 616.

⁵ For example see: *Patterned Concrete Mississauga Inc. v. Bomanite Toronto Ltd.*, 2021 FC 314.

⁶ The author has written about the potential benefits of copyright registration.

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