Federal Court Cour fédérale

Date: 20230628

Docket: T-1397-16

Citation: 2023 FC 908

Ottawa, Ontario, June 28, 2022

PRESENT: The Honourable Mr. Justice Southcott

BETWEEN:

DUNN'S FAMOUS INTERNATIONAL HOLDINGS INC.

Plaintiff

and
INA DEVINE, STANLEY DEVINE
1222187 ONTARIO LIMITED
1924599 ONTARIO INC.
2189944 ONTARIO INC.
9702938 CANADA INC.
GRAY JOHNSON
2474234 ONTARIO INC.
THE ESTATE OF THE LATE MOISHE SMITH
TIM LONG CHANG
RIPON AHMED
VINCENT GOBUYAN
10199087 CANADA CORPORATION
10199052 CANADA LTD.

Defendants

AND BETWEEN

INA DEVINE
STANLEY DEVINE
1222187 ONTARIO LIMITED
1924599 ONTARIO INC.
2189944 ONTARIO INC.

Plaintiffs by Counterclaim

and
DUNN'S FAMOUS INTERNATIONAL HOLDINGS INC.
PLACEMENT ISB INC.
ELLIOT KLIGMAN

Defendants by Counterclaim

ORDER AND REASONS

I. Overview

[1] On January 19, 2021, this Court granted default judgement in the within action by the Plaintiff for trademark and copyright infringement (see *Dunn's Famous International Holdings Inc v Devine*, 2021 FC 64 [Default Judgment]).

[2] In this motion, brought pursuant to Rule 399(1) of the *Federal Courts Rules*, SOR/98-106 [Rules], two of the Defendants subject to the Default Judgment, 2474234 Ontario Inc. [247] and the Estate of Mr. Moishe Smith [Smith] [together, the Moving Defendants], seek to set aside the Default Judgment.

[3] As explained in greater detail below, this motion is dismissed, because the Moving Defendants have not shown that they have a reasonable explanation for their failure to file a Statement of Defence.

II. Background

[4] The Plaintiff, Dunn's Famous International Holdings Inc., is a Canadian company, which operates a consumer retail food product development, marketing, licensing, and wholesale distribution business based out of Montréal, Québec. In the within action, the Plaintiff asserts

causes of action under the *Trademarks Act*, RSC 1985, c T-13 and the *Copyright Act*, RSC 1985, c C-42, against a variety of corporate and individual Defendants, including the Moving Defendants, alleged to have infringed the Plaintiff's rights under those statutes.

[5] The trademark interests asserted by the Plaintiff in this action are:

A. the Canadian registered trademarks TMA724,615 "DUNNS FAMOUS & DESIGN"; TMA1075279 "DUNN'S FAMOUS & DESIGN"; TMA1075280 "DUNN'S EST. 1927 & DESIGN"; and TMA1024058 DUNN'S EXPRESS & DESIGN;

B. the trademark application numbers APP1945271 "DUNN'S"; and APP1945272 "DUNN'S FAMOUS";

C. the trade names "Dunn's Famous Delicatessen"; "Restaurant, Dunn's Famous"; and "Dunn's Famous Smoked Meat"; and

D. all rights having accrued under the *Trademarks Act*, as well as all corresponding common law rights, in connection with the expunged trademarks TMA357,531 "DUNN'S FAMOUSSMOKED MEAT SHOPPES"; and TMA360,232 "DUNN'S FAMOUS & DESIGN" [together, the Dunn's Trademarks].

[6] The background to the action is the activities of certain of the Defendants - Ina Devine, Stanley Devine, and corporations they own and control, 1222187 Ontario Limited, 1924599 Ontario Limited and 2189944 Ontario Limited [together, the Devine Defendants]. The Plaintiff

alleges that between 2007 and 2018 the Devine Defendants entered into a series of agreements with third parties, without the authority of the Plaintiff, purporting to provide licenses to those third parties, in relation to trademarks that are the subject of this action. The Plaintiff included these third parties as Defendants.

[7] The Devine Defendants and some of the other Defendants with which the Devine Defendants had entered into licensing agreements ultimately consented to judgments, in which they recognized the Plaintiff's ownership of the Dunn's Trademarks and the validity thereof.

[8] The Plaintiff then filed a Notice of Motion dated August 17, 2020, seeking default judgment under Rule 210(1) against the Defendants who did not consent to judgment and who had not filed a Statement of Defence within the time required under the Rules [Defaulting Defendants]. The Moving Defendants were among the Defaulting Defendants. The Plaintiff filed its motion on an *ex parte* basis in relation the Defaulting Defendants, as permitted by Rule 210(2).

[9] After conducting an oral hearing on December 20, 2020, the Court granted the Plaintiff's motion (in part) and issued the Default Judgment against the Defaulting Defendants on January 19, 2021. The Default Judgment included Reasons explaining the Court's decision as to the relief contained in the Default Judgment, which did not include all relief requested in the Plaintiff's motion.

[10] The Court subsequently issued a writ of seizure and sale against the Moving Defendants dated April 20, 2021.

[11] By Notice of Motion dated February 23, 2023, the Moving Defendants filed the within motion under Rule 399(1), seeking to set aside the Default Judgment as it applies to them and seeking an extension of time to file a Statement of Defence.

[12] The first Moving Defendant, 247, is a corporation that owned and operated a restaurant business that used the Dunn's Trademarks from 2015 to 2018. The second Moving Defendant is the Estate of Moishe Smith. Mr. Smith, who passed away on January 18, 2023, was the President and Director of 247.

III. **Relief Sought**

[13] In this motion, the Moving Defendants request an Order:

A. pursuant to Rule 399(1), setting aside the Default Judgment against the Moving Defendants;

B. extending the timeline for service and filing of the Moving Defendants' Statement of Defence or any motion by the Moving Defendants respecting the Statement of Claim to thirty (30) days from the date on which the Court issues an Order setting aside the Default Judgment;

C. striking the writ of seizure and sale against the Moving Defendants dated April 20, 2021;

D. that the parties' entitlement to costs and assessment of the Plaintiff's Bill of Costs, which is currently the subject of a Direction of Assessment Officer Garnet

Morgan dated November 10, 2022, be postponed until after the disposition of this motion, and the time for the Moving Defendants to make submissions be extended until an appropriate time; and

E. awarding the Moving Defendants their costs of this motion on a full indemnity basis.

IV. Issue

[14] The issue to be determined on this motion is whether the Court should set aside the Default Judgment and grant the ancillary relief sought by the Moving Defendants.

V. Analysis

A. *General principles*

[15] A motion to set aside a default judgment is brought under Rule 399(1), which gives the Court the discretion to set aside or vary an order in certain circumstances:

Setting aside or variance	**Annulation sur preuve prima facie**
399 (1) On motion, the Court may set aside or vary an order that was made	**399 (1)** La Cour peut, sur requête, annuler ou modifier l'une des ordonnances suivantes, si la partie contre laquelle elle a été rendue présente une preuve prima facie démontrant pourquoi elle n'aurait pas dû être rendue :
(a) *ex parte*; or	a) toute ordonnance rendue sur requête *ex parte*;
(b) in the absence of a party who failed to appear by accident or mistake or by reason of insufficient notice of the proceeding,	b) toute ordonnance rendue en l'absence d'une partie qui n'a pas comparu par suite d'un événement fortuit ou

d’une erreur ou à cause d’un avis insuffisant de l’instance.

if the party against whom the order is made discloses a *prima facie* case why the order should not have been made.

[16] The test to be met by the moving party on a Rule 399(1) motion is well established. It requires that the moving party show they: (i) have a reasonable explanation for the failure to file a Statement of Defence, (ii) have a *prima facie* defence on the merits of the claim, and (iii) moved promptly or within a reasonable time to set aside the default judgement (see *Babis (Domenic Pub) v Premium Sports Broadcasting Inc*, 2013 FCA 288 [*Babis*] at paras 5-6).

[17] As the test is conjunctive, the failure of the moving party to establish any of the three elements necessarily results in the order standing as originally issued (see *Babis* at para 5; *UBS Group AG v Yones*, 2022 FC 487 at para 17; *Moroccanoil Israel Ltd v Laboratories parisiens Canada (1989) Inc*, 2012 FC 962 [*Moroccanoil*] at para 20).

B. ***Is there a reasonable explanation for failure to file a Statement of Defence?***

[18] Before turning to the Moving Defendants’ arguments that they have a reasonable explanation for filing a Statement of Defence in this matter, it is useful to review certain events leading to the issuance of the Default Judgment on January 19, 2021.

[19] The Plaintiff commenced this action against the Devine Defendants by Statement of Claim issued on August 19, 2016. The Plaintiff subsequently joined other Defendants, including

the Moving Defendants, in this action and served its resulting Amended Statement of Claim upon 247 on February 24, 2017, and upon Smith on March 2, 2017.

[20] In November 2018, the Plaintiff achieved a settlement agreement with the Devine Defendants.

[21] On January 15, 2019, the Plaintiff's counsel wrote to Smith by email, noting that he had been served with the Amended Statement of Claim, that he had not contested the Plaintiff's action, and that the matter would soon proceed against him by default, as a settlement had been concluded with Ina and Stanley Devine. Mr. Smith responded by email on January 26, 2019, noting that he no longer had a Dunn's store and stating that he had no interest in ending up in a squabble with the Plaintiff.

[22] As a result of the settlement with the Devine Defendants, the Plaintiff moved for a consent judgment against the Devine Defendants, which Associate Chief Justice Gagné granted by Order dated October 17, 2019.

[23] The Plaintiff then moved to add additional Defendants. Pursuant to an Order of Associate Judge Steele dated December 4, 2019, the Plaintiff filed a Second Amended Statement of Claim. It served the Second Amended Statement of Claim on the Moving Defendants in late February and early March 2020. On March 2, 2020, Smith sent the Plaintiff's counsel a message through a social media platform (through which he had been served with the Second Amended Statement of Claim pursuant to an order permitting substituted service), asking counsel to call him.

[24] At some point in this sequence of events, settlement discussions also took place between the parties, culminating with Smith providing certain financial documentation of 247 to the Plaintiff's counsel in April 2020. I will canvass the settlement discussions in more detail later in these Reasons.

[25] On November 6, 2020, the Plaintiff filed its motion for default judgment against the Defaulting Defendants (including the Moving Defendants). The Court received oral submissions on December 20, 2020, and on January 19, 2021, I issued the Default Judgment.

[26] Against the backdrop of these facts, none of which I understand to be contested by either of the parties, the Moving Defendants submit that, even when served with the Second Amended Statement of Claim in February and March 2020, the Moving Defendants reasonably believed that the Plaintiff no longer intended to pursue the action, because:

i. the matter had been settled with the Devine Defendants, by whom 247 claims to have been granted a license to use the Dunn's Trademarks;

ii. only limited remedies would be available to the Plaintiff in respect of 247 as a result of its cessation of the use of the Dunn's Trademarks following the Plaintiff's settlement with the Divine Defendants; and

iii. Smith did not ever use the Dunn's Trademarks in his personal capacity.

[27] As an effort to demonstrate that the Moving Defendants have a reasonable explanation for not filing a Statement of Defence, I find little merit to these submissions. The principal evidence upon which the Moving Defendants rely in support of this motion is the affidavit of

Renee Claudine Bates [Bates], Smith's widow and the Executrix and Trustee of his Estate. However, the only evidence in her affidavit relevant to the above submissions is her statement that, upon becoming aware that Ina and Stanley Devine had consented to judgment in these proceedings in 2018, 247 closed down the business that it operated in 2018.

[28] Bates' affidavit does not speak to any belief on the part of the Moving Defendants that, as a result of the settlement with the Devine Defendants, the cessation of the use of the Dunn's Trademarks in 2018, or the nature of Smith's personal role, the Plaintiff no longer intended to pursue this action. Nor would there be any logic to a belief that, for any of those reasons, the Plaintiff would no longer have interest in pursuing its claim against the Moving Defendants. The Plaintiff's pleadings alleged infringing activities by the Moving Defendants since at least November 11, 2015, and the Moving Defendants have identified no basis for a conclusion that the Plaintiff's claim against them was resolved by the settlement with the Devine Defendants.

[29] The Moving Defendants also argue that Smith's March 2, 2020 message, asking the Plaintiff's counsel to call him, demonstrates confusion on Smith's part at having received the Second Amended Statement of Claim after the matter had been settled with the Devine Defendants. The Moving Defendants offer no evidence that Smith was confused about the state of the litigation at this juncture, and I find no basis to infer that he was confused from the fact that he requested a phone call.

[30] Finally, the Moving Defendants rely upon the settlement discussions that took place in 2020 to argue that they believed there was no need at that time to file a Statement of Defence,

because the parties were working towards a resolution of this matter. In considering this argument, I note that this Court has held that settlement discussions could, in certain circumstances and with the required evidence, provide a reasonable explanation for not having filed a Statement of Defence (see *Benchmuel v Gags N Giggles*, 2017 FC 720 [*Benchmuel*] at para 36).

[31] In support of this argument, Bates states in her affidavit her belief that Smith provided financial statements of 247 to the Plaintiff's counsel in an attempt to resolve this matter. She also states her belief that the Moving Defendants believed that there was no need at that time to file a Statement of Defence, as the parties were working towards resolution.

[32] Bates' evidence lacks any detail surrounding the settlement discussions. It also lacks any detail as to the information on which her beliefs are based, other than identifying that she was Smith's wife. For instance, she does not attest to Smith having informed her that he believed, because of settlement discussions, that there was no need to file a Statement of Defence. I therefore afford little weight to her evidence as support for the Moving Defendants' argument.

[33] However, the Plaintiff's Responding Motion Record includes an affidavit of one of its solicitors, Mr. Leonard Seidman [Seidman], which provides greater detail surrounding the settlement discussions. It was Seidman with whom Smith exchanged the January 2019 emails referenced earlier in these Reasons. Seidman states in his affidavit that, sometime after that exchange, Smith contacted him by telephone to offer to settle the Plaintiff's claim. Seidman told him that, in order to settle the Plaintiff's claim against him, he would have to provide his HST

remittance forms for sales during the 2016 to 2018 period he had indicated he was operating the unauthorized Dunn's restaurant. Seidman received the HST remittance forms from Smith in April 2020. There is no evidence of any further communications between the parties prior to issuance of the Default Judgement in January 2021.

[34] It is not clear whether the HST remittance forms referenced in Seidman's affidavit are the same as the financial statements referenced in Bates' affidavit. Regardless, I accept that settlement discussions took place between the parties, including Smith's provision of some financial documentation related to 247. Indeed, the Plaintiff's counsel confirmed at the hearing that the Plaintiff does not dispute that settlement discussions took place. Rather, the Plaintiff submits that the Court must consider the evidence as to the nature of these discussions, which the Plaintiff argues does not support a conclusion that the discussions resulted in a concluded settlement or that that they were sufficiently advanced to represent a reasonable explanation for the Moving Defendants' failure to file a Statement of Defence.

[35] The Plaintiff relies significantly on *Benchmuel*, in which the defendants argued that they were acting in good faith and failed to abide by the Court's Rules as a result of their impression that a settlement had been agreed with the plaintiffs. Justice Gascon found based on the evidence that this argument did not represent a reasonable explanation for failing to file a Defence (see para 34).

[36] In my view, *Benchmuel* is not particularly on point. In the case at hand, the Moving Defendants are not arguing that they thought that settlement had been achieved. Rather, they

submit that it was reasonable for them to believe that there was no need to file a Defence because the parties were working towards a settlement. Justice de Montigny considered a similar argument in *Moroccanoil*. As an explanation for not filing a Defence, the defendants in that case argued that they were led to believe that they would reach a settlement. However, the Court found that the evidence did not support that explanation (at para 21). Justice de Montigny held that the fact the parties attempted to settle the action during a particular period did not eliminate the obligation to comply with the Rules (at para 23).

[37] In the case at hand, the Moving Defendants were first served (with the Amended Statement of Claim) in February and March 2017, almost 4 years before the Default Judgement was issued in January 2021. They have offered no reasonable explanation for failing to file a Statement of Defence for the period prior to the settlement discussions. While the precise duration of the settlement discussions is not clear from the evidence before the Court, the evidence indicates that the last communication between the parties in furtherance of settlement was in April 2020, some nine months before the Default Judgment was issued. There is no evidence that the Moving Defendants followed up with the Plaintiff at any time in that nine-month period or that any other events took place in that period that would suggest that settlement was likely or even that settlement discussions were progressing.

[38] Moreover, the evidence before the Court indicates that the settlement discussions that took place up to April 2020 were very general in nature. It is not clear to me that either party ever advanced an offer with any concrete terms. In my view, the evidence as to the nature and extent of the discussions does not support a conclusion that it was reasonable for the Moving

Defendants to have failed to file a Statement of Defence in reliance on those discussions. As such, the Moving Defendants have not satisfied the first element of the test applicable to a Rule 399(1) motion.

C. *Further analyses*

(1) Is it necessary to consider the other elements of the Rule 399(1) test?

[39] The Plaintiff notes that the applicable test is conjunctive and takes the position that, if the Moving Defendants have not satisfied the first element of the test, it is unnecessary for the Court to consider the other elements.

[40] The Moving Defendants disagree and refer the Court to *Babis*, in which the Federal Court of Appeal was considering an appeal from a decision of the Federal Court that had dismissed a motion to set aside a default judgment in an action for copyright infringement (see paras 1-2). The Moving Defendants emphasize in particular the explanation by the Federal Court of Appeal at paragraph 10 that, after finding the defendant had not provided a reasonable explanation for his failure to file a Defence, the Federal Court had recognized that this was sufficient to dismiss the motion but nonetheless briefly considered the other two parts of the test.

[41] *Babis* does not support a conclusion that this Court should consider all elements of the conjunctive test when a defendant has failed to satisfy the first element. In paragraph 10 of *Babis*, the Federal Court of Appeal notes that the Federal Court had done so in that particular case, albeit considering the second and third elements of the test only briefly. However, I do not read *Babis* as suggesting that such an approach is necessary or even encouraged. Rather, as

Justice Gascon concluded in *Benchmuel*, if one element of the test is not met, it is sufficient to dismiss the motion (at para 33) and there is therefore no need for the Court to assess whether the defendants have a *prima facie* defence on the merits or whether the defendants moved within a reasonable time to bring their motion (at para 60).

(2) Is the motion abusive, vexatious, and frivolous?

[42] The only remaining analysis required, other than the disposition of costs, is to address the position of the Plaintiff, conveyed at the hearing of this motion, that the Court should declare the motion abusive, vexatious and frivolous. As background to this request, I note that the Plaintiff's initial response to this motion was to file a cross-motion to strike the Moving Defendants' motion on the basis that it was abusive. On May 23, 2023, Associate Judge Steele issued an Order adjourning the cross-motion *sine die*, although observing that the Plaintiff was not precluded from raising any facts or arguments made in support of its cross-motion in responding to the Moving Defendants' motion to set aside the Default Judgment.

[43] I note that the Plaintiff's arguments in response to the motion to set aside the Default Judgment did include arguments that they had advanced in their cross-motion in support of their position that the Moving Defendants' motion was abusive. However, none of those arguments figured in the above analysis underlying my decision to dismiss the Moving Defendants' motion. I decline to make any declaration of the sort the Plaintiff requests.

VI. **Costs**

[44] In their written materials, each of the parties requested costs on an elevated basis in the event of its success on the motion (the Moving Defendants seeking costs on a full indemnity basis and the Plaintiff seeking special costs in the amount of $20,000.00). However, at the hearing, the Court encouraged counsel to explore the possibility of agreeing on a lump sum figure that would be awarded to whichever party ultimately proved to be successful on the motion.

[45] The parties subsequently agreed on lump sum costs of $5000.00, payable forthwith. I agree that this amount is appropriate, and my Order will award costs in that amount to the Plaintiff, payable by the Moving Defendants forthwith.

ORDER IN T-1397-16

THIS COURT'S JUDGMENT is that:

1. The Moving Defendant's motion is dismissed.

2. The Plaintiff is awarded costs of the motion in the lump sum amount of $5000.00, payable by the Moving Defendants forthwith.

"Richard F. Southcott"
Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-1397-16
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PLACE OF HEARING:	MONTREAL QC
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DATED:	JUNE 28, 2023

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