

Court of Queen's Bench of Alberta

Citation: Allarco Entertainment 2008 Inc v Staples Canada ULC, 2021 ABQB 340

Date: 20210430
Docket: 1903 24888
Registry: Edmonton

Between:

Allarco Entertainment 2008 Inc.

Plaintiff

- and -

**Staples Canada ULC, Best Buy Canada Ltd., London Drugs Limited,
Canada Computes Inc., John Doe Customers 1 to 50,000
John Doe Suppliers 1 to 100**

Defendants

**Reasons for Judgment
of the
Honourable Mr. Justice M. J. Lema**

A. Introduction

[1] A broadcaster seeks to block sales of certain TV set-top boxes by four major retailers. It sees the boxes as purely “piracy devices.” It contends that some of the retailers’ employees encouraged customers to use such boxes to access pirated programming and even guided them in the necessary steps. It seeks a further order that the retailers advise purchasers of these boxes of any injunction granted and caution them against using the boxes to access pirated content.

[2] The retailers resist, arguing (among other things) that any such sales conduct was in response to a single “customer” (Allarco’s undercover investigator) i.e. was not widespread or typical, was at odds with existing store policies, and in any case has not recurred in light of upgraded or reinforced policies. Beyond that, the retailers defend the continued sale of the impugned products, which they see as having legitimate uses.

[3] The retailers also seek a stay of the main action until the copyright owner(s) are added.

[4] I find no material evidence of encouragement and guidance or at least any causing harm to Allarco and, in any case, no evidence of any continuing such conduct or any material risk of it. I also find that the units in question have legitimate uses and that any post-purchase misuse by consumers cannot be blamed on the retailers.

[5] Accordingly, I deny the broadcaster's request for an interlocutory injunction. I also stay the main action until the copyright owner(s) are added and award the retailers costs on a solicitor-and-client basis.

B. Standing and addition of copyright owner(s)

[6] I start with standing. The retailers argue that Allarco has **no standing** to seek the requested relief or at least copyright-related relief, asserting:

1. Allarco is not the copyright holder for the two programs it used as proxies for its programming;
2. in any case, it did not show that it has any current rights to either program; and
3. in any case, it did not join the copyright holder(s) in these proceedings.

[7] I will assume that Allarco, as some kind of licensee of the programs in question, has standing to seek the requested relief (at least for its own part i.e. leaving aside the position of the copyright owners – see below) and that its licenses are in good standing i.e. have not expired.

[8] However, for the reasons below, I find that Allarco was **required to join the copyright holder(s) as parties** and that, until that happens, the **main action must be stayed**.

Obligation to add copyright owners

[9] Paragraph 41.23(2)(c) of the **Copyright** Act) says that, subject to certain exceptions, the copyright owner “shall be made a party” to infringement proceedings.

[10] The full provision reads:

(2) If [copyright enforcement proceedings] are taken by a person other than the copyright owner, the copyright owner shall be made a party to those proceedings, except

(a) in the case of proceedings taken under section 44.12, 44.2 or 44.4 [not relevant here];

(b) in the case of **interlocutory proceedings**, unless the court is of the opinion that the **interests of justice require the copyright owner to be a party**; and

(c) in **any other case** in which the court is of the opinion that the **interests of justice do not require the copyright owner to be a party**. [emphasis added]

“Interests of justice” case law

[11] A handful of cases have examined this “interests of justice” element.

[12] In *Close Up International Ltd v 1444943 Ontario Ltd*, 2006 CanLII 32925 (ONSC), Master Dash **dispensed with** the need to add the copyright owners as parties. He emphasized these factors:

Firstly, CUI [licensee] is the exclusive owner of the copyright in Canada and the U.S. and is already a party. **Only CUI will benefit from the action by way of damages or other enforcement measures.** The Russian Companies [copyright owners] **have no real interest in the action or the relief claimed.**

Secondly, the **proposed amended statements of claim** plead that **the Russian Companies are named as parties ...**

Thirdly, **none of the defences to the action relate to the copyright interest of the Russian Companies.**

Fourthly, to keep them as plaintiffs will **add an unnecessary layer of complexity, uncertainty and cost to the action.** It will also result in added procedural motions. Although the Russian companies have pleaded that they are not participating, the **defendants have made it clear they wish to compel them to submit to examination for discovery.** I am advised that the Russian Companies will resist examination in Ontario and may resist examination in Russia as they are not participating.

Fifthly, **neither the plaintiff nor the defendants have expressed a strong interest in keeping the Russian Companies as plaintiffs, nor have they urged me not to keep them.** Although the **defendants suggest the Russian Companies should have been added, it appears that this is solely for the purpose of discovery, which may not be granted.** ... CUI, the copyright owner [actually exclusive licensee] is already a party. Although as the plaintiff suggests, the **Russians have an ownership interest** in the trademark that CUI is enforcing, **that interest can be adequately protected by CUI.**

Finally, there is **no evidence that the Russian Companies desire or even consent to be added as plaintiffs.**

No compelling reason has been suggested to keep the Russian Companies in the action. I have determined that their addition as plaintiffs is not required in the interests as justice and as a result the motion to add them as plaintiffs is refused. [paras 7 and 48-55] [emphasis added]

[13] In *Entral Group International Inc v 1438762 Ontario Inc*, 2005 CanLII 18316 (ONSC), Master Hawkins applied the “interests of justice” test to stay the licensee’s action, emphasizing the **potential otherwise for further infringement litigation by the copyright owners and the absence of hardship in adding the owners:**

The moving defendants submit that **if this action is allowed to proceed in its current form without the Record Companies [copyright owners] being made parties** the moving defendants will be **exposed to further litigation** for alleged copyright infringement of some or all of the works the subject of this action brought by one or more of the Record Companies. ...

The nature of the relationships between the present plaintiffs and the Record Companies appears to be one to which the concept of privity of interest applies. However, at this stage of the litigation, with that relationship not fully known, **I cannot say for certain that a judge in future litigation brought by the Record Companies against the present defendants would apply the doctrine of issue estoppel against the Record Companies in that future litigation. ...**

The present plaintiffs submit that it is in the interests of justice to allow them to proceed with this action without adding the Record Companies as parties because **adding the Record Companies as parties will increase the expense involved in this litigation for the plaintiffs and delay its resolution.** This is particularly so, the plaintiffs say, because the Record Companies are based in Hong Kong. For example, examining the Record Companies for discovery will be significantly more expensive than if they were located in Ontario. Translators may be required.

The evidence for the plaintiffs does not go so far as to say that this added expense and delay will be so burdensome for the plaintiffs as to work a hardship.

In conclusion, taking into consideration the elements of **uncertainty and discretion surrounding the application of the doctrines of issue estoppel and cause of action estoppel and the lack of hardship, the plaintiffs have not discharged the onus of showing that it is in the interests of justice that the Record Companies not be added as parties to this action.** I therefore order that **this action be stayed** until such time as the Record Companies are added as parties to this action. [paras 9, 13, and 15-17] [emphasis added]

[14] In *Spanski Enterprises, Inc v IMB+ Records Inc*, 2013 ONSC 5382, Master McAfee addressed “interests of justice”, focusing on the **copyright owners having endowed the licensees with full authority to represent their interests and unexplained delay by the defendants** in raising the para 41.23(2)(c) point:

This is a motion brought by the defendants, IMB+ Records Inc. and International Media Broadcasting Corporation (collectively IMB). IMB seeks an order pursuant to section 106 of the *Courts of Justice Act*, R.S.O. 1990, c.C.43, **staying** the portion of this action brought pursuant to the *Copyright Act*, R.S.C., 1985, c.C-42 until such time as the **owners of the copyright in issue, Telewizja Polska S.A. (TVP) and Telewizja POLSAT S.A. (POLSAT) are either added as parties to this action or deliver their consent to be bound by any decision of the court in this action and provide authorization for the plaintiffs to be their representatives in this action.**

The **onus is on the plaintiffs to show that it is in the interests of justice that the copyright owners are not added as parties** (*Entral Group International Inc. v. 1438762 Ontario Inc.*, [2005] O.J. No. 2140 (Master) at para 17).

I am satisfied that the **interests of justice do not require the copyright owners to be parties.**

SEI and TPC [apparent licensees] have the **authority**, and in the case of POLSAT the **contractual obligation, to represent the legal rights of both TVP and**

POLSAT [copyright owners] in accordance with the terms of the respective agreements.

The TVP Agreement as amended provides:

TVP designates SEI as its representative in the Territory [North America and South America], authorized to prevent any violations and to protect TVP rights. Any legal action on behalf of TVP, in particular incurring costs, may be undertaken only by prior approval by TVP. TVP will provide appropriate support to SEI actions in this regard.

TVP provided its prior approval (Spanski affidavit, para 54 and exhibit “R”).

The POLSAT Agreement provides:

[TPC] undertakes to ensure legal protection to the POLSAT2 program on the Territory [Canada] by way of undertaking and performing, at its expense, appropriate actions (including legal action) against person infringing on copyright and related rights of POLSAT, particularly against entities illegally retransmitting the POLSAT program via the Internet and/or cable or telecommunications networks.

Having regard to the above-noted provisions and the fact that TVP is aware of this litigation and has chosen not to participate, I am satisfied that there is **no reasonable prospect of future litigation for copyright infringement if the copyright owner is not added as a party.**

There has been **delay in bringing this motion.** In *Entral*, the motion was brought relatively early in the proceedings. However, the within action was commenced over two and a half years ago. The defendants have been aware that the copyright owners are not parties since the outset. The defendants waited until March 20, 2013 to advise for the first time that they intended to bring a motion to challenge the plaintiffs’ standing. The **affidavit evidence filed on behalf of IMB on this motion**, being an affidavit from a librarian at the law firm of counsel for IMB, **does not explain why IMB waited approximately two and a half years to bring this motion.**

Pleadings are closed, affidavits of documents have been served and examinations for discovery have been conducted. The action is close to being set down for trial. **If the copyright owners are added at this stage, although IMB indicates that they do not wish to examine the copyright owners for discovery, delay will result from any motion to add parties, further pleadings and service on the copyright owners in Poland.** [motion dismissed] [paras 1 and 6-14] [emphasis added]

Parties’ positions on “interests of justice” factor

[15] Allarco did not address para 41.23(2)(c) in its brief or other materials.

[16] The retailers addressed the provision in their common brief:

... Allarco has **not joined, sought or obtained consent from the copyright owners** of the [two sample shows] at issue in this action **nor has it discharged the onus** of showing that it is in the **interests of justice that the copyright owners not be added** as parties to this action.

Allarco purports to know who the copyright owners are and **deliberately failed to advise them or add them**. This is fatal to Allarco's claim since section 41.23(2) of the Copyright Act states that the copyright owners "shall be made a party."

There is an exception in section 41.23(2)(b) relating to "**interlocutory proceedings**." That exception does not apply for at least two reasons. First, if the underlying action is non-compliant, the exception cannot make the action itself compliant. Second, even if the exception could apply, it is clearly in the "**interests of justice**" **for the copyright owners to be added in this case since only the copyright owners can provide this Court with direct evidence of whether Allarco was given an "assignment" or "grant" in the underlying copyrights**. Furthermore, Sony [an apparent copyright owner] can directly answer the question as to why it permits streaming from within Canada through its Crackle API, and its own position as to whether such streaming violates any rights of Allarco granted by Sony to Allarco. Moreover, these **proceedings seek much more than an interlocutory injunction, vis-à-vis the copyright claims, and Allarco has had ample time to notify and engage the copyright owners**.

... [Allarco's CEO] admitted that Allarco had not approached some of these [actual or possible copyright owners] to determine whether they would be a plaintiff in this litigation or assist Allarco with its claims. Allarco has not discharged its burden [to show why the copyright owners should not be named parties] to this action. ... [emphasis added]

[17] During argument, Allarco's counsel responded:

What [the retailers] are suggesting is that **we should have joined**, in respect of [Allarco's] four channels, which run 365 days a year, with thus with more than 30,000 copyrights involved, **30,000 copyright owners to come to this virtual hearing** ... they don't want any part of it.

[The Court] can form the opinion that **it is in the "the interests of justice" that we do not want to hear all of them saying "we don't like piracy killing our businesses."**

Do we want 30,000 lawyers here? As well, **copyright infringement is not [Allarco's] only cause of action** ... there are other causes of action, based on other unlawful acts, such as conspiracy. ...

It is in the interests of justice to get on with this [i.e. the argument of the injunction application].

[The key is] protected content. Whether a copyright owner, or someone with exclusive rights, or someone with unexclusive rights, or even just a contractual right, [some kind of right] is needed to show [a given] program to the public. Before [a broadcaster] can sue, it only needs a lawful right.

We agree that **all 30,000 shows shown on Superchannel are owned by someone ... we will not name them all.** It is in the interests of justice for [the Court] to [recognize] that they have all licensed rights to Superchannel.

Do we need all [30,000] of these copyright owners here? **[The retailers] say that they all need to be here,** but [the Court] has the power to say “in the interests of justice, we do not need them all here.”

We would **only need to worry [about para 41.23(2)(c)] if we had only a copyright claim to go on,** but we have all sorts of unlawful acts that form part of the conspiracy. ...

The injunction should go ... it seems like we have exclusive rights here ... we can [later] add the copyright owners ... or send them a letter, if necessary.

It is in the “**interests of justice**” to **get on with this [application]** and not quibble about one point that can wait for trial.

[Concerning a certain case where it was alleged that **an American rights holder was shipping product into Canada over the protests of the Canadian rights holder**], **that is where the interests of justice would indicate you need the copyright [or other source-right] holder** involved.

[18] Mr. Colombo, for Best Buy (and the other retailers), responded (in part):

We are **not talking about 30,000 copyright owners.** We are talking about the entities who have given exclusive licenses to Allarco ... **only those programs ... those two examples. Allarco did not explain why [it did not notify the copyright owners here]. [By definition], it cannot be a “burdensome” thing, when they offer no explanation.** [Allarco has actually] refused to tell us if they have notified the copyright owners about this.

The purpose of excluding interlocutory proceedings is to say (effectively): “If a plaintiff has to move quickly because of the nature of the alleged infringement, it should not have to join every party ... that is the trade-off of the *Copyright Act*.”

But Allarco cannot just ignore the requirement that [the copyright owners] shall be made parties to the action itself.

We do not know] whether the [copyright owners] authorized this proceeding and whether they will be bound by [it] or not.

If Allarco has non-exclusive rights, what does it do [about alleged infringement]? It has a contract [with the copyright owner]. It should oblige the copyright owner to police the [alleged infringement]. That would be the proper avenue. [“Look at this infringement. Copyright owner, deal with this.”]

[One key of including the copyright owner is that it allows] the defendants to see what rights were given by the copyright owner to the licensee.

In short, Allarco needs to comply with para 41.23(2)(c): it has no contract with the actual copyright owner; we do not know what rights were given to Allarco (exclusive versus non-exclusive); **we do not know if Allarco even has the right**

to commence this proceeding with respect to copyright, as one or both of the contracts in question reserves rights to the licensor [i.e. copyright owner].

Plus, we do not know if the copyright owners will be bound by the Court's decision. We do **not want a multiplicity of proceedings** (i.e. if the licensees sue and then the copyright owner sues); that is not fair to the defendants.

Finally, there is **no evidence it would have been burdensome** to Allarco to add the copyright owners.

Allarco has **known about this problem for at least a year**; they could have addressed it long ago, but did not.

The [retailers] have a right to know whether they copyright owners consent to the bringing of this proceeding.

Application of "interests of justice" principles

[19] Here are the key factors in this case:

- per the statute, the default position is **mandatory addition**;
- **Allarco had the onus** of showing why, in the "interests of justice", those parties are not necessary;
- Allarco did **not add** the copyright owners **or even notify them of the proceeding** or **provide any reasonable explanation** on either front;
- Allarco tried to argue impracticality ("30,000 parties, 30,000 lawyers), but it anchored its infringement action on **two shows**, meaning (with separate copyright owners) only **two parties** had to be added. It pointed to **non-copyright dimensions** of its claim, but that does not answer the "shall add" obligation for the copyright claim. Finally, it implied that the only purpose of adding the owners would be for them to appear and inevitably echo Allarco's piracy concerns. But as the cases show, "differential positions" is not the test;
- unlike in *Spanski Enterprises*, **no evidence** shows that the copyright owners **obliged or even authorized Allarco** to bring proceedings to defend copyright;
- given no evidence of notice to the copyright holders, we **do not know** if they **want to participate, do not want to participate, or are indifferent**;
- as in *Entral Group*, the retailers have a **legitimate concern about multiplicity of proceedings**, with the copyright owners **not currently parties, no evident delegation of their litigation rights** to the licensed party (here, Allarco), and **no evidence** of their **willingness (or otherwise) to be bound** by the outcome of these proceedings;
- unlike in *Close Up*, **no evidence** shows that **pleadings are being amended to add** the copyright owners;
- as for delay, we have the reverse of the *Spanski Enterprises* scenario: the retailers **raised this issue in a timely way**, yet Allarco did **nothing to address the point** (either adding the owners or explaining why not);

- **no evidence** shows that adding the owners would have been **impossible, impractical, or burdensome** for Allarco; and
- I reviewed the two confidential-evidence contracts: one of them is **silent on any allocation** (between the copyright owner and the licensee) **of litigation responsibilities**. The other contains very specific allocations of such responsibilities for “defensive” litigation i.e. suits **against** the copyright owner or licensee. It appears to be **silent on “offensive” litigation** i.e. proceedings with either of those parties as **plaintiffs, asserting copyright**. It does say that, absent expressly assigned rights, the copyright owner reserves all rights.
- It is at least arguable, given those contracts, that Allarco does not have the right to bring copyright-infringement proceedings. I make no ruling on the point, but this **uncertainty points to the value of adding the copyright owners here i.e. to eliminate any uncertainty about standing to enforce the copyrights**.

Conclusion on adding copyright owners

[20] In these circumstances, I find that it is **not in the interests of justice to dispense** with adding the copyright owners as parties to the main action.

[21] Accordingly, I impose a **stay on further steps by Allarco in the main litigation** i.e. pending the addition of the copyright owners as parties.

[22] As for the current **interlocutory application**, and with interlocutory proceedings being an **exception** to the main “must be added” rule (unless the interests of justice require otherwise), and given my findings below, I find it is in the interests of justice to decide this application now i.e. not stay it until the copyright owner(s) are added.

[23] The reasons are that I do not see what material evidence or arguments the copyright owner(s) could add to this injunction application, and I foresee no material risk that they will later bring the same or similar application on their own i.e. no material risk of multiplicity of proceedings.

[24] Below is my analysis of the remaining issues.

C. Test for interlocutory injunction

[25] The parties agreed on the familiar test for an interlocutory injunction. Here is the test as expressed by Sharpe JA in his authoritative text:

1. has the plaintiff presented a case which is **not frivolous or vexatious** but which presents a **serious case to be tried**?
2. will **damages** provide the plaintiff with an **adequate remedy**? If so, no injunction should be granted. If not,
3. would the plaintiff’s **undertaking in damages provide adequate compensation** to the defendant, should he or she succeed at trial, for loss sustained because of the interlocutory injunction? If yes, there is a strong case for an interlocutory injunction.

4. where there is doubt as to the adequacy of the respective remedies in damages, the case turns on the **balance of convenience**.
5. at this final stage, weight may be placed on the court's prediction of ultimate success [but only where one side of the case is clearly stronger] [*Injunctions and Specific Performance* – Loose-leaf Edition (current to November 2019), Thomson Reuters, para 2.130 at pp 2-18 and 2.18.1].

D. Analysis

[26] There is **no serious case** to be tried here.

[27] Allarco's entire case for an injunction is built on assertions that the decline in its subscriber base and otherwise suboptimal performance has been **caused by** programming piracy of consumers using "pirate devices" sold by the retailers and that such damage will continue absent an injunction.

Allarco's arguments anchored on piracy occurring

[28] That assertion is the through-line of Allarco's arguments, as seen in these selected excerpts from its main and reply briefs:

- "[Two of Allarco's TV series, used as proxies for its programming line-up] are examples of thousands of its copyrighted programs **which are being pirated using ... Pirate Devices**" [and later] "[these shows] are examples of popular programming **which is being pirated**";
- "Examples of how [Allarco] is damaged by the use of Pirate Devices and internet piracy include the following: [its] programming **is being watched without permission and without compensation**";
- "The [retailers] know and intend that their customers will buy and **use the Pirate Devices to steal programming from [Allarco]**";
- "... **When Super Channel's programming is being accessed and viewed by anyone without its permission**, that is proof beyond any doubt that [certain electronic safeguards] **have been circumvented** contrary to section 41 of the *Copyright Act*";
- "[The retailers] have so far refused to disclose their information, knowledge or involvement in piracy and **how the [Allarco] programming is being stolen**";
- "... [Certain] testing focused on two of Super Channel's popular programs [shows #1 and #2], being examples of the **programs being pirated**";
- "[Certain streaming devices the retailers sell] are Pirate Devices – widely known to be designed and **used for piracy of copyright programming as broadcast by Super Channel** and others";
- "... [the retailers] obfuscated the extent of their involvement in the conspiracies which lead to **[Allarco's] programming being pirated**";

- “ ... [Allarco] has demonstrated [exclusive-rights infringement] with [shows #1 and #2], and those examples extrapolate to show that **all of Super Channel’s programming is infringed in the same way**”;
- “The actions of the [retailers] are intentional and **interfere with Super Channel’s business ...**” [above excerpts from main brief]; and
- “ ... the Pirate Devices previously sold over the years by each [retailer] **continue to steal copyright programming, including Super Channel programs.**” [reply brief].

Allarco’s piracy-assertion evidence

[29] Allarco’s deponents made many similar assertions:

- “These [show #1 and show #2] examples **will illustrate how the [retailers] are cheating Super Channel ...** Where Super Channel would, in the ordinary course of business, earn income from subscribers, that legitimate model [of business] **is undermined and circumvented by the sale and use of the pirate devices by the [retailers]. As a result, Super Channel is effectively robbed of income**”;
[affidavit of Don MacDonald sworn [date], para x] – complete for unattributed ones below]
- “ ... when I note that the pirate devices sold by the [retailers] **are being used to view [show #1] programming**, that means that it is being imported into Canada without permission ...”;
- “The pirate devices **are depriving Super Channel of income each time that the users i.e. the [retailers] and their Customers view any of the programming that Super Channel offers**”;
- “ ... The pirate devices **are being used to view these shows [#1 and #2] and Super Channel is not being compensated**”;
- “The [Allarco] investigation evidence confirms that the **pirates are stealing [show #2] in that they are taking what belongs to Super Channel without permission ...**”;
- [affidavit of Don Best sworn January 3, 2020, para 68];

“I became the President and CEO of [Allarco] in June of 2017. At that time, it had become apparent that **Super Channel had lost many subscribers in a relatively short period. Subscription revenues were falling significantly and, most important, the rate of subscriber loss was increasing.** – The very reason that Super Channel filed for CCAA [protection] in May 2016 was that **our subscriber erosion was overwhelming.** – This was **strange to me because Super Channel was broadcasting a number of very successful and popular programs** including [list of shows] to name a few. Super Channel had the exclusive right to broadcast these in Canada along with many other popular high-quality programs where the company had paid the necessary substantial licensing fees. – I had been aware for some years that piracy of copyright

content including TV shows and movies was a factor in the broadcasting and content creation industry, but **in light of Super Channel’s and other investigations in the last two years, it is now apparent that the last six or seven years have seen a massive growth in content piracy** – fueled by the promotion and increasingly widespread availability of pirating technologies, and the promotion and normalization of a culture of stealing copyright content in Canada”; [affidavit of Don McDonald sworn April 3, 2020, paras 4-7];

- “... the **impact of content piracy and this new culture of stealing content has been devastating to Super Channel ...**” [same affidavit, para 9]; and
- “**I formed the opinion** during the CCAA proceedings which [Allarco] went through between May 2016 and April 2018 **that these proceedings would not have been necessary if it were not for the sale or pirate devices to Canadians and the culture of copyright infringement** that developed and explored over the last 6 or so years. – With what we know today, it is reasonable to state that, **without content piracy, the past decade would have been very different and profitable for Super Channel**” [same affidavit, paras 11 and 12].

Allarco’s (very limited) piracy evidence

[30] Allarco pointed to **general-phenomenon evidence** about content piracy:

- “While the financial costs of content piracy to the Canadian Broadcast and Content Creation Industries would be less in terms of actual dollar value when compared to the USA, a 2019 US Chamber of Commerce **study estimates that copyright piracy costs the industry from 11% to 24% of gross revenues** [based on a “broad range of estimates” of the “extent to which piracy is assumed to displace legal purchases”]. It seems reasonable that the same would be true in Canada. ... there is **much reason to believe** that Canada’s relatively smaller industry would be **more vulnerable, hit harder and be less resilient** to copyright piracy than the huge American content creation and broadcasting industry”; and
- “[A 2019 Federal Court decision] showed that ‘VaderStreams.ca’ ... had annual **gross revenues of CDN \$1.72 billion dollars** servicing **8 million piracy customers** throughout Canada and the USA.” [Further, based on Mr. Best’s investigatory experience] “even **smaller commercial pirates and sellers of pirate devices can earn millions of dollars per year operating from garages, flea markets and small retail outlets** [e.g.] one small ‘mom and pop’ pirating operation north of Toronto, Ontario that has over four thousand clients, each paying about \$200 a year for pirated content that includes thousands of channels, programs and movies [plus approx. \$150 for a device].

[31] Allarco effectively asks me to **infer**, from this (limited, imprecise and largely indirect) evidence, that it has suffered, and will continue to suffer, from content piracy.

Allarco acknowledging uncertainty about extent of piracy occurring

[32] Allarco itself recognized its challenges in proving piracy and its effects on it. In its main brief (para 11), it stated (in part):

The nature of internet piracy means it is virtually impossible to accurately identify and quantify **every instance of piracy where customers are watching [Allarco's] programming** without paying for it. There is no reliable data to accurately calculate losses to date or income that will be lost if the injunction is not granted. [emphasis added]

[33] And later (para 165):

[Allarco] is suffering ongoing and substantial damage to its core business of broadcasting programming to its subscribers. **Its losses are virtually impossible to calculate accurately.** ... [emphasis added]

Allarco's onus to show causation

[34] Allarco did have to identify "**every instance**", but it had to provide, at minimum, **some evidence** of an actual link between the retailers' activities and Allarco's claimed losses. It did not necessarily have to calculate its damages accurately, or at least completely, but it had to show it was suffering at least **some damage** because of the retailers' activities.

[35] Fundamentally, Allarco had to show **causation** i.e. that the alleged impugned activities of the retailers – promotion and sale of set-top boxes for content piracy – have caused, and (if allowed to continue) will cause, the loss of actual and potential subscribers.

Allarco not proving adverse impacts from piracy

[36] I am **not satisfied** that, compared to the kinds and extent of evidence of subscriber loss and overall business diminishment seen, for example, in *Videotron Ltee c Bell ExpressVu, lp* (2012 QCCS 3492 (reversed in part 2015 QCCA 422; SCC leave dismissed 2015 CanLII 66252) at paras 596-615 and paras 718-733), Allarco's evidence has proved **actual adverse impacts on its business from content piracy**. (See also the "studies and surveys" reference in *Chum Ltd. v Stempowicz*, 2003 FCT 800 (Snider J.) -- part of paragraph beginning "Given the difficulty ...".)

[37] However, below I will assume that it has indeed suffered such effects.

Allarco not proving any piracy via retailer-sold units

[38] The question becomes: what are the **contributions to those effects, if any, from persons purchasing set-top boxes from the retailers**. Here Allarco introduced **no evidence** of:

- even one **current** Super Channel subscriber who **has decided to cancel or is considering cancelling** because he or she has purchased a set-top box from the retailers or is considering one (all aside from a material number of such subscribers);
- even one **former** Super Channel subscriber who **unsubscribed** after, and because of, purchasing from the retailers a set-top box used to **continue accessing Super Channel content** or other copyrighted or licensed content without authorization (all aside from a material number of such former subscribers);

- even one person who **would, or might, have subscribed** to Super Channel but for purchasing from the retailers a set-top box used to access Super Channel content or other protected content without authorization (all aside from a material number of such people); or
- for that matter, **any one consumer’s actual use, in any fashion**, of a set-top box purchased from the retailers.

[39] Accordingly, Allarco has not proved that **retailers-sold boxes** have been used to infringe any of its broadcast rights. As a result, its copyright and other remedial claims hinging on proving such a link fall flat.

[40] However, below I will assume that some such boxes have been so used.

Contribution of retailers’ activities to any infringement of Allarco’s rights

[41] The question then becomes: what were the **retailers’ contributions, if any**, so such infringements?

“Promotion and encouragement of content piracy”

[42] Allarco first points to evidence of some employees of each of the retailers **generally promoting and encouraging content piracy and specifically the sale of certain set-top boxes** capable, with relatively minor adjustments, of accessing copyrighted content without payment.

[43] But Allarco’s evidence here was **limited** to dealings by the retailers’ employees with **one person** i.e. Mr. Best, its “investigative shopper”, who travelled the country for over a year, posing as a customer interested in buying one of those boxes and in using it to access pirated content, and secretly recording his interactions. In other words, a person who, to all appearances, **was already disposed to content piracy**.

[44] As the retailers put it in their common brief:

Mr. Best went into [the retailers’] stores with a **plan** (i.e. to get employees to discuss **whether and how particular devices might be used for illicit activities**). In further of that, and to induce the conversations to generate the evidence he wanted, he often and **materially misled** those employees (e.g. told them his friends had purchased a device which allowed them to get unauthorized access to media content at that particular store).

Mr. Best acknowledged in his cross-examination that he lied to these employees to enable the conversations he was trying to have and the admissions he was pursuing. He calls these lies a “pretext.”

In reviewing Mr. Best’s surveillance evidence, it is clear that his **interactions** with employees fall into **three main categories**. First, there are those who told Mr. Best that his planned activities were **illegal**. Second, there are those who **did not know what he was talking about** and could not assist. Third, there are those who had **some personal knowledge of how streaming devices could be modified to gain access to media content, and tried to answer Mr. Best’s leading questions**. In this latter category, most of those employees referenced resources that were available online (e.g. via Google searches or YouTube) or told him he would need to speak with his friends.

Contrary to Mr. Best's assertions, virtually all of the employees indicated the **company could not assist with modifying any device**. A few said otherwise and, taken at its worst, these employees (who have no legal training) were only guilty of trying to assist a persistent customer

... there is **not a single example in his evidence of any employee approaching him and promoting these products for those purposes**. ... [emphasis added]

[45] I adopt that synopsis as an accurate capture of these interactions.

[46] Allarco provided **no evidence** of the retailers' employees' dealings with **any other customer**, let alone dealings about set-top boxes and their uses, let alone about the potential use of some of boxes (after post-purchase modification or programming) for pirating content, let alone about **any of their activities beyond dealings with him**.

[47] I am **not able to infer**, from Mr. Best's performance pieces, anything about the wishes, preferences or conduct of **retailer customers generally** or about the actual or typical conduct of **retailer employees** in interactions with those customers. His repeated "experiments" only demonstrated that **he** was sometimes able to get advice about how to use a set-top box, modified or programmed after purchase, to access pirated content.

[48] The experiments tell me nothing about **how often customers ask for assistance with set-top boxes, what they typically ask about**, how often they ask for information about the **capacities of different set-top boxes**, how often they raise their **intended uses of such products** and, in such cases, **how often they disclose their intention to use them to access pirated content**.

[49] Allarco tendered a report from a mathematician, attempting to show, via extrapolation from Mr. Best's store visits, the extent of "piracy fanning" by retailer employees. However, it does not assist here, for the reasons outlined by the retailers in their common brief (paras 123-128 and 265-270), which I adopt as correct.

[50] The principal reason is that, with **no evidence about the frequency of Mr.-Best-like people attending the retailers' stores**, I cannot extrapolate, from his store visits, anything about the general extent of the phenomena he reported. As well, the **"simple binomial survey" principles she applied do not apply to Mr. Best's ad hoc investigative techniques** i.e. featuring shifting comments and questions in a given retail visit, depending on the responses of the store employee(s).

[51] At most, I might infer that, **if other customers presented and behaved as Mr. Best did**, and again we have **no evidence to gauge how often that happened**, they likely received the **same, mixed-bag, responses** i.e. occasionally received advice about using a set-top box (again, modified or programmed after purchase) to access pirated content. (That is, **before the retailers reinforced or upgraded their staff training** – see further below.)

[52] But that inference does not take Allarco very far.

[53] First, as noted, there is no evidence about, and I am not able to infer anything about, the **extent** of Mr.-Best-like people visiting the retailers' store. Is this how every customer behaves? Every tenth customer? One in five hundred? Only Mr. Best himself? I have no way to tell.

[54] More significantly, whatever the extent, Mr. Best's videos do **not prove** that the retailers promote and encourage a culture of piracy, and they **do not prove** that the retailers, through their

employees' actions, **played any material role in any infringements of Allarco's broadcast rights.**

[55] A Mr.-Best-like person arriving at a retailer store is, by definition, already:

- aware of the existence of pirated content;
- not troubled by the phenomenon of piracy;
- keen to find out how to access pirated content;
- willing to reach out to others for that information;
- willing to act on that desire for pirated content; and
- sufficiently resourced to satisfy that desire.

[56] In other words, a **convert to the piracy phenomenon.**

[57] I **cannot find**, based on the Best evidence here, or any other Allarco evidence, that any assistance offered by retailer employees to such persons **contributed, or contributes, in any material way**, to Allarco subscriber losses or other business difficulties.

[58] Given the **wide array of options** for purchasing set-top boxes, of all types, across the **retail spectrum in Canada** (i.e. not just the retailers here), and given the mouse-click-away **torrent of information about set-top boxes and how to use them** (including how to configure them for various uses post-purchase), I cannot find that **any particular behaviour of retailer employees** have materially affected the intentions or actions of Mr.-Best-like people: one way or another, such people are going to **find out about set-top boxes**, they are going to **buy the kind of set-top box they need**, and they are going to **use it as they see fit**.

[59] In other words, it is the **Mr.-Best-like consumer's decisions** to (1) purchase a particular set-top-box; (2) modify or program it to access pirated content; and (3) use it to access such content, that really matters here.

[60] **That is the material off-side conduct**, not any sale-of-box assistance provided by a retailer employee to a **person bent on such conduct**.

In any case, no more promotion or encouragement

[61] In any case, after Allarco presented its investigative-shopper videos to the retailers, each of them took steps to **reaffirm, upgrade, expand, or otherwise improve their store policies** on respecting intellectual property rights and not engaging with customers who ask about circumventing those rights (for example, requiring employees involved in electronics sales to sign an acknowledgement of these policies and advising of disciplinary consequences).

[62] See, for example, London Drugs' incremental training efforts (para 35 of its brief and the associated affidavit evidence at footnote 48), as well as Allarco's acknowledgement of no "piracy support or encouragement" by anyone at London Drugs after mid-2019.

[63] Comparable incremental-training evidence was supplied by each of the retailers and not contradicted by Allarco.

[64] Allarco presented **no evidence** that, after these developments, any breach of those policies has occurred at any of the retailers. If some of the retailers' employees were fanning the flames of copyright infringement via set-top boxes, that fanning has **apparently stopped**.

Conclusion on “piracy promotion and encouragement”

[65] I conclude that Allarco has not proved that any of the retailers promoted or encouraged piracy, or at least in any material way, or in any case that any such activities produced any discernible impact on Allarco’s subscriptions or business prospects generally.

[66] In any case, no such activities are currently occurring, and Allarco produced no evidence showing any risk of them recurring.

Sale of certain units as contributing to Allarco’s business difficulties

[67] The focus then shifts from **no-longer-occurring promote-and-encourage activities** to the **very sale of the devices**.

[68] Allarco argues that certain set-top boxes, featuring or including the “KODI” program, are **inherently offside**, conceived for a single (accessing pirated content) purpose, and should no longer be sold by the retailers.

[69] I disagree.

KODI software application

[70] I start with the Federal Court of Appeal’s description of KODI in *Bell Canada v Lackman*, 2018 FCA 42:

KODI is a software application that can be installed on electronic devices and that **allows users to play various types of multimedia content** (video, music or pictures, for example). It can read both physical digital media (such as CDs, DVDs or Blu-ray) and digital files (such as MP3 or QuickTime). It is an “open source” software application, and is **available for download for free on the Internet. When used in conjunction with add-ons, the KODI media player can be used to access and stream multimedia content hosted on the Internet. These add-ons fall into two categories: non-infringing add-ons, which direct users towards legitimate websites, and infringing add-ons, which direct users towards copyrighted content where the user has no authorized access ...**
[para 4] [emphasis added]

[71] In other words, KODI is a neutral application. I see it as a “finder”, which can be used to find both legitimate and pirated content (and the latter only after adding certain add-ons).

Devices in question have legitimate uses

[72] Most, if not all, of the units examined in this case featured pre-installed applications such as Netflix, YouTube, and Google Play i.e. were ready to access such applications “from go”, if no subscription is required (e.g. YouTube), or once subscribed (e.g. Netflix).

[73] Mr. Best and Allarco’s expert (Dr. Eric Cole) asserted, incorrectly, that the devices had no legitimate uses.

Allarco’s expert evidence on device use(s)

[74] Dr. Cole’s report was aimed in part at confirming Allarco’s “no legitimate use” position, in his “Executive Summary of Findings”, he first noted that “My findings are **presented in more detail in other sections** of my affidavit, this section is a **brief summary** of my findings” (para 11).

[75] His **summary** included this on legitimate use:

In my technical experience, the **designed purpose** of the pirate devices sold by the [retailers] is to **gain access to pirated content**. The [retailers'] pirate devices are **not a viable or cost-effective use of technology for any other purpose**. The **totality of the pirate devices' functionality further indicates their purpose**. The value of the pirate device is in their **ability to access pirated content and not in performing any other function**.

[76] However, his report did **not return to this subject**, after 46 paragraphs of completely irrelevant-to-this-case observations, his report says only this:

The **laboratory used** for analysis [by the Bests] is a **capable, specialized, and purpose-built assembly** of audio/video and computer modules for the purpose of capturing all possible inputs and outputs, including network and video.

The **lab** produces **comprehensive investigative evidence** of the Pirate devices.

The **lab environment** is **able to fully document and capture evidence** under a variety of common deployment scenarios and is **capable to perform repeatable experiments** in order to evaluate in a manner suitable for all makes and models. [essentially repeats the first paragraph]

Across various test scenarios, usual to Offices and Homes where these devices are commonly connected, the **lab** was **able to test various procedure and equipment** demonstrating standardized testing outputs and careful data handling and post-examination practices.

The **laboratory** was examined by me and I find **it captures** simultaneously and without modification or interference, **evidentiary streams** including a live feed of the laboratory work bench station and the physical devices while under review, video output of the pirate devices as seen on a connected TV, and the real-time and untouched Internet connectivity and network communications to and from.

This led to **four separate captures** which are **Desktop Capture, HDMI Output, Webcam and Stills, and Network Packet Captures**, Collectively, these four testing outputs provide irrefutability of their temporal authenticity. The **integrity of the tests** [is] demonstrated through the uses of **checksums, serialization**, and are simultaneously collected and correlate activity.

[77] This opinion is **not helpful**. The first five paragraphs of this excerpt are abstract, telling us only that this was a **good lab set-up**; the sixth (and only "results") paragraph tells us almost nothing:

- none of these "**captures**" is exhibited or otherwise described. What is the "**This**" that led to them? **What** are the outputs that the expert refers to? **Where** are they? **When** were they prepared? By **whom**? **How**? (It may be that he is referring to material forming part of Mr. Best's evidence, but he does not say that or provide any reference points);
- we are told that these outputs, whatever they are, "provide irrefutability of their temporal authenticity." Presumably that means that the time markers of this data, whatever it is, are accurate. What is the **basis** for offering the conclusion that these outputs are time-

solid? What is the **significance** of that? What would it mean if the time markers were **not accurate**?

- does the data provide “irrefutability” about **anything beyond time-marking**?
- **what are “checksums”? What is “serialization”?** What checksums and serializations were **actually performed, by whom, where, when, and how?** What did they show, and **how did that show the integrity** of these tests, whatever they were?
- **nothing** here, or elsewhere in the affidavit, offers **any illumination on the uses or functionality of the devices**, to assist in gauging their possible uses, the “viability” of such uses, and their “cost-effectiveness” i.e. **nothing to anchor the executive-summary assertions of no legitimate use.**

[78] More generally, the “Executive Summary of Findings” is revealed as almost completely hollow, Aside from the first finding (para 12) about the “lab” being fine (the only thing actually anchored in his subsequent evidence, as noted above), **none of his other findings were supported in other evidence in his affidavit**, He says “I generally verified” this, “I successfully replicated and reproduced” that, “I re-tested” something else, and so on, but he does not follow the “summary assertion” with **any evidence** i.e. the actual details of what he claims to have done.

[79] As well, the retailers raised legitimate concerns about Dr. Cole’s **objectivity** here:

Dr. Cole has a **history of working with Donald Best**. In emails between Dr. Cole and [Mr.] Best, with respect to retaining Dr. Cole for this case, [Mr.] Best tells Dr. Cole’s assistant that this retainer does not relate to “my personal case that he previously assisted me with.” Dr. Cole previously gave expert evidence in [certain litigation commenced by Mr. Best].

[Allarco’s counsel] **refused to allow Dr. Cole to answer any questions about his previous work with [Allarco], [Mr. Best], or [Allarco’s counsel], There was thus no way to test objectivity or bias.** This in itself calls into question the admissibility of Dr. Cole’s evidence.

While conducting his review, Dr. Cole **worked directly with Patrick Best [Mr. Best’s son], the investigator whose results he was retained to verify**, Dr. Cole also used Patrick Best’s equipment to conduct his review, rather than bringing his own equipment.

Before conducting any examination of new, unopened devices, [Dr Cole] watched “several videos until [he] felt comfortable that [he] had information, enough information and details to verify what was in Mr. Best’s affidavit.” Dr. Cole did **not conduct his own, independent tests**, He watched exactly what Patrick Best had done when starting up a number of devices, and then copied his steps.

... with respect to the Expert Notes, Dr. Cole testified that at times, while he was working with the devices, Patrick Best **assumed the role of note-taker and in fact wrote some of the Expert Notes.**

Dr. Cole could not recall on cross-examination **which parts of the Expert Notes were written by him and which parts were written by Patrick Best**, He did

recall that the procedure outlined in the Expert Notes, which described the process for reviewing the devices, was drafted and inserted by Patrick Best. At times he refused to answer who typed certain parts of the Expert Notes.

Dr. Cole testified that he did not modify the Expert Notes after January 19, 2020, However, the Expert Notes contain notes that are date-stamped February 13, 2020, February 18, 2020, March 16, 2020 and March 17, 2020. These notes were clearly typed after January 19, 2020, the date Dr. Cole admitted was the last time he modified the Expert Notes.

When questioned about [these] dates in the Expert Notes, Dr. Cole refused to answer whether Patrick Best had sent him the Expert Notes. [emphasis added] [footnotes to evidence omitted]

[80] An expert is expected to be helpful to the Court, He or she is also expected to be objective and transparent. This report raised more questions than it answered, and it did not answer, or shed any helpful light on, any issue in these proceedings.

[81] I reject Dr. Cole’s report as entirely unhelpful here, all aside from my concerns over his objectivity (echoing those of the retailers).

Mr. Best’s evidence on device use(s)

[82] On the use(s) of these devices, Mr. Best’s stated:

When I say ‘pirate device’ or ‘pirating device’, I mean “a device used by persons to access / view / listen to copyrighted content without payment to the copyright holder and/or licensee, and/or that is accessed / viewed / listened to in contravention of copyright conditions or without permission of the copyright owner.”

... The [retailers’] devices, right off the shelf, function to access pirated copyright content. **This is their intended and designed function. Once again, a pirate device is about the functionality and intended functionality of the device** – not its model number, colour or manufacturer.

[83] Mr. Best there outlined his understanding of a piracy device **without reference to non-piracy uses of such devices**, whether in their original state or once add-ons are added on. And he offered his view that the “intended and designed function” of these devices is accessing pirated content, implicitly he asserts they have no other function.

[84] But he provides **no evidence** of that, His entire exploration was aimed at showing how the set-top boxes can be used (whether on purchase or post-add-ons, which is reviewed below) to access pirated content.

[85] His evidence has a **massive gap**, which I infer was intentional: **none of his testing efforts were aimed at gauging the full range of uses** of these products,

[86] It is one thing to assert that these devices can access pirated content; it is another to say that they **can perform no other functions**.

[87] Allarco argued that, despite Netflix and similar applications appearing in many of the equipment-test videos, they were “**false fronts**” i.e. non-functional applications. However, its

testing did not actually show that. Allarco had the **onus**, which it did not discharge, to show that **apparently available** applications were non-functional.

[88] Allarco's evidence here is **effectively meaningless without additional evidence (not provided) of the possible functions** of each device tested (e.g. to link up with Netflix after subscribing, to access YouTube, etc.) i.e. a full canvassing of the possible uses of every device.

[89] On both "legitimate use" and "out of the box" capabilities of these devices (discussed next), I find the **retailers' overall testing evidence**, coming from an **independent expert** (Joseph Pochron of Ernest & Young), whose training, experience and testing procedures were fully explained, is **inherently more reliable** than Allarco's testing evidence.

[90] Mr. Best has no computer or applications testing background, Allarco's core testing was performed by his two (adult) sons, neither of them swore affidavits in these proceedings (precluding exploration of and cross-examination on their education, training, experience, testing equipment, testing, protocols, and otherwise), and some of their testing videos began after the devices in question had been removed from their packaging, leaving a "continuity gap."

[91] On the "uses" point, I adopt as correct the retailers' submissions:

The evidence tendered by [the retailers' expert] is clear that **Android TV devices can be used for legal purposes**. The same evidence comes from the representatives of each of the [retailers]. Their evidenced is uncontradicted. Indeed, Mr. Best **did not even try any of the obviously legitimate applications** on them, such as Netflix, Facebook, Chrome and other web browsers, Skype, Twitter, etc. ...

... Even [Allarco's expert] admitted that Android TV devices **could be used for legal purposes**, but according to him, there were better devices that could be used for those purposes. When asked what devices he was referring to, he could not name any.

... As noted in *Bell Canada v Red Rhino* [2019 FC 1460]

... Commercially available set-top boxes have **many legitimate or non-offending uses**. [emphasis added]

[92] Legitimate uses were also recognized in *Bell Canada v 1326030 Ontario Inc (iTVBox.net)*, 2016 FC 612 (affirmed 2017 FCA 55), where Tremblay-Lamber J. enjoined the sale of **pre-loaded** set-top boxes i.e. unit which **already contained one or more add-ons** aimed at accessing pirated content.

[93] She distinguished between such (off-side) units and off-the-shelf units lacking such add-ons (which she saw as on-side):

The Defendants are individuals and businesses which sell set-top boxes, electronic devices that can be connected to any standard television set in order to provide additional functionalities to that television, on which they have **previously installed and configured** a set of applications. This **distinguishes** the Defendants' **"pre-loaded" set-top boxes from those generally found in retail stores, which do not contain any pre-loaded applications, or contain only basic applications**, such that the user must actively seek out and install the applications he or she wishes to use. [paras 5] [emphasis added] [For a similar

approach, see the FCA's decision in *Lackman* (cited above) at paras 20-22 and 27-34]

[94] Allarco fails in trying to prove that these devices had only one (piracy purpose) use.

[95] They also fail in trying to prove that any of these devices actually had a piracy use "right out of the box", as explored next.

No "right out of the box" piracy functionality

[96] Mr. Best and Allarco's expert also asserted, incorrectly, that the devices in question could access pirated content "right out of the box, without modification."

[97] Here are some of Mr. Best's assertions on this aspect:

- "the vast majority of pirate devices that I purchased from the [retailers] -- as purchased new off the shelf -- had a pre-installed program called 'KODI' that enabled me to view a large amount of pirated content '**off the shelf**' **without enhancement or modification to the device**";
- "I would simply take off the shrink wrap, open the cardboard box, connect the pirate device to the Internet and plug it in to power for the first time. **Within two or three minutes** I could select and view various pirated TV programs and movies ... from the pre-existing Official KODI channels menu that is included by default with every KODI installation. The selection of channels was accomplished by simply doing 'mouse clicks' on the screen; and
- "As presented in greater detail in the following sections of my affidavit and shown in video demonstrations attached as exhibits, simply by using the pre-existing Official KODI channels menu I was able to view pirated episodes of [certain copyrighted content] **within about three minutes after turning on the pirate devices for the first time.**"

[98] He made dozens of similar claims.

[99] Allarco's expert's summary included these elements:

I **verified and validated** the accuracy of the statements in Donald Best's affidavit that pirate devices, as purchased from [the retailers] – '**off the shelf**', **new, unused and unmodified** – access pirated copyright content

I **verified and validated** the accuracy of the statements in Donald Best's affidavit that some pirate devices, as purchased from Best Buy – '**off the shelf**', **new, unused and unmodified** – access pirated copyright content [paras 16 and 17]

[100] However, Dr. Cole's evidence suffers from the same defect here as that concerning "use": he makes an assertion in his executive summary, with **no evidence** backing it up.

[101] In fact, the testing by **both sides** showed that **various steps, of various difficulty, and requiring various amounts of time, were required to find and add on whatever "add-on" programs were necessary to access pirated content.** Here I adopt, as correct, the evidence synopsis in the retailers' common brief (paras 86-96), effectively that **add-on programs were inevitably required** for piracy use of the devices i.e. **not a single one was "out of the box" piracy-functional.**

[102] **None of the units sold by the retailers included such add-ons when purchased.** They either did not include KODI or included KODI without add-ons.

[103] Whether add-ons could be added in three minutes or thirty, or with ten clicks or twenty, the point is that the units here were **not configured, as sold by the retailers, for immediate use as a pirating device.**

Potential mis-use of products having legitimate uses

[104] The **potential** for pirating-purpose modifications of **legitimate-use products** should **not prevent their sale in the first place.** The judgment of the House of Lords in *CBS Songs Limited v Amstrad Consumer Electronics plc*, [1988] AC 1013 is instructive here. It concerned an attempt to bar the sale of certain **tape-recording equipment**, used by some purchasers to record copyrighted content without consent.

[105] CBS's first argument was that Amstrad (the manufacturer) "authorized" infringement. Per Lord Templeman:

... twin-tape recorders, fast or slow, and single-tape recorders, in addition to their recording and playing functions, are capable of copying on to blank tape, directly or indirectly, records which are broadcast, records on discs and records on tape. Blank tapes are capable of being employed for recording or copying. **Copying may be lawful or unlawful.** Every tape recorder confers on the operator who acquires a blank tape the facility of copying: the double-speed tape twin-tape recorder provides a modern and efficient facility for continuous playing and continuous recording and for copying. No manufacturer and no machine confers on the purchaser authority to copy unlawfully. **The purchaser or other operator of the recorder determines whether he shall copy and what he shall copy. By selling the recorder Amstrad may facilitate copying in breach of copyright but do not authorize it. ...**

In the present case, **Amstrad did not sanction, approve or countenance an infringing use of their model** and I respectfully agree ... that in the context of the Copyright Act an authorization means a grant or purported grant, which may be express or implied, of the right to do the act complained of. Amstrad conferred on the purchaser the power to copy but did not grant or purport to grant the right to copy.

... Amstrad have no control over the use of their models once they are sold.
[emphasis added]

[106] The House of Lords used similar reasoning to reject arguments of joint infringement (by the manufacturer and end user), incitement to commit a tort, criminal offence, and negligence.

[107] Same here, and we are **one step more remote** from that scenario, with the Retailers acting merely as go-betweens i.e. standing between the device manufacturers (against whom Allarco has sought no relief) and consumers.

No control of consumers' use of devices

[108] The retailers have no control over consumers' use of any devices purchased in their stores. This is akin to the copying-in-library scenario examined by the Supreme Court of Canada in *CCH Canadian Ltd v Law Society of Upper Canada*, 2004 SCC 13:

... a person does **not authorize [copyright] infringement** by authorizing the **mere use of equipment that could be used to infringe copyright**, Courts should **presume** that a **person who authorizes an activity does so only so far as it is in accordance with the law** ... This presumption may be rebutted if it is shown that a **certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement**.

... even if there were evidence of the photocopiers having been used to infringe copyright, the Law Society **lacks sufficient control** over the Great Library's patrons to permit the conclusion that it sanctioned, approved or countenanced the infringement, The Law Society and Great Library patrons are not in a master-servant or employer-employee relationship such that the Law Society can be said to exercise control over the patrons who might commit infringement ... Nor does the Law Society exercise control over which works the patrons choose to copy, the patron's purposes for copying or the photocopiers themselves. [paras 38 and 45] [emphasis added]

[109] A retailer has **even less opportunity for control** of a purchaser's activities, which happen beyond the four walls of the retailers' stores i.e. out in the wider world.

[110] Allarco's CEO acknowledged this lack of control (cross-examination excerpt at para 224 of the common brief).

Hosts of other legitimate-use products implicated by Allarco's position

[111] I accept the retailers' evidence, which Allarco did not challenge, that, beyond set-top boxes, "... thousands of products sold by the [retailers] (and dozens of third parties) that connect to the Internet, such as **smart phones, tablets, computers, laptops, gaming consoles** (such as Sony PlayStation and Xbox), **and smart TVs** ... can be modified and configured by end-users [i.e. post-purchase] to access [subscription-based content for free]."

[112] This shows that the **problem here is not the product but some users of it**, whose post-purchase actions (as noted) the retailers do not and cannot control.

Other remedies not engaged by sale of the devices

[113] The bulk of the preceding analysis addresses Allarco's core (copyright infringement) arguments.

[114] As for the balance of its arguments, I adopt as correct the retailers' analyses (common brief, para 237)

Conspiracy: [Allarco] has **neither pleaded nor provided any evidence whatsoever of any agreement among the [retailers]:** (a) with the predominant purpose of damaging the plaintiff; or (b) which involves an unlawful act directed to [Allarco] in circumstances where the [retailers] should know that damage to [Allarco] is likely to occur, and does occur. ... Mr. Best admits he has **no knowledge of any agreements** among the [retailers].

Criminal and public nuisance claims: There is no **proper pleading, let alone any evidence whatsoever** that the [retailers] has engaged in theft, criminal passing off, or public nuisance.

Intentional interference with economic relations: [Allarco] also asserts [this claim], which also is **not viable as pleaded**. The essential elements ... are (a) an act against a third party (i.e. not [Allarco]); (b) employing unlawful means against that third party; and (c) intentionally causing the plaintiff harm. The gist of the tort is the intentional infliction of harm against a third party by unlawful means, which injures the plaintiff. Thus the unlawful act cannot be actionable by the plaintiff itself. Here, the **essential elements of that claim have not been pleaded, let alone supported by evidence**.

Trademark claims: The trademark claims all require that the [retailers] used [Allarco's] trademark in some way or otherwise made a misrepresentation likely to lead the public to believe there is some association between the [retailers' businesses] and Allarco's business. There is **no evidence whatsoever** of any of this. Moreover, [Allarco] has **no standing** to bring trademark infringement claims itself on behalf of third parties (who here are not even disclosed).

Circumventing technological protection measures: This statutory tort under s. 41.1 of the *Copyright Act* requires Allarco to establish that its technology, device or component is a TPM within the meaning of s. 41, including that it controls access to a work and restricts certain acts, and that the defendants circumvented it, offered a service to circumvent it, or offered a product designed or marketed to circumvent it. There is **no evidence** that Allarco uses any TPM for its broadcasts, and **no evidence** that any of the [retailers] (or the Android TV boxes they sold) circumvented any Allarco TPM. Even if the boxes are capable of obtaining a copy of content licensed to Allarco from another source, there is **no evidence whatsoever** that any copy was made by descrambling, decrypting or otherwise avoiding, bypassing, removing, deactivating or impa[i]ring any Allarco TPM. Obtaining a copy from another source, which Mr. Best and his sons did when they installed the add-ons to the Kodi software does not mean that any TPM was circumvented, let alone an Allarco TPM.

Conclusion on "serious case to be tried"

[115] Allarco failed in its attempt to show that the retailers' selling activities were fanning the flames of piracy, or at least were doing so in any material way, or at least in any way linked to Allarco's subscription and overall business difficulties.

[116] It also failed in its attempt to paint the devices in its sights as inherently objectionable.

[117] Finally, Allarco raised no serious issue on any of its asserted causes of action, copyright-related or otherwise.

Irreparable harm and balance of convenience

[118] In any case, as seen above, Allarco has not shown that any of its business difficulties to date have been caused by anything done by any of the retailers. Any forecasts of future difficulties at the hands of the retailers are **purely speculative**.

[119] It did not show that, whatever losses it may suffer if no injunction is granted and one should have been, cannot be compensated via **monetary damages**.

[120] Beyond that, its intended injunction is **unlikely to achieve its intended effect**. Allarco seeks an injunction against **these retailers only**. As the retailers put it:

During cross-examination, Mr. McDonald admitted that Allarco has not sent any demand letters to the **manufacturers** of the so-called internet streaming devices mentioned in Mr. Best’s affidavit, has not started litigation against them, and confirmed that he has not authorized either of these steps to be taken to date. He also confirmed that he has not authorized a demand letter to be sent to Bell Canada or The Source objecting to the sale of such devices, and has not authorized litigation against them.

Mr. Best admitted during cross-examination that he **did not investigate whether alleged “pirate devices” were also being sold by others, such as Amazon, and he “didn’t investigate a lot of places.”**

Even if an injunction were issued here, it would **not prevent the sale of these devices in the market**. If [Allarco] truly wanted to achieve that, it would have brought this application against the manufacturers and suppliers, not these four [retailers]. [not to mention the full retail spectrum] [emphasis added]

[121] It is hard to see the **efficacy of a no-more-sales injunction against a subset of the retail marketplace**.

[122] As well, Allarco has **delayed**. Its pace shows the absence of true urgency. Per the retailers (whose analysis I accept):

Allarco retained Mr. Best in late **2017** to investigate the alleged “piracy” of its licensed content. Mr. Best’s evidence was that **as early as March 2018**, he was going into the Defendants’ retail stores and recording interactions with various employees. Mr. Best continued to make these recordings through **September 2019**, when Allarco initiated [a] Federal Court action against the [retailers]. In the interim, at least as early as **March 2019**, Allarco began writing to the [retailers] claiming that unidentified devices being sold in their respective stores were violating Allarco’s alleged rights in television programming. During this correspondence, Allarco claimed to have video evidence to support its claims against the Defendants.

Accordingly, **Allarco was in a position at least as early as March 2019, having been “investigating” and recording interactions in the [retailers’] stores for at least one year, to seek injunctive relief**. It chose not to do so, instead refusing to identify the devices at issue and ultimately starting Federal Court litigation in September 2019. Even then it did not file a motion for an injunction. ... Allarco ... abandoned [its Federal Court] action and started this action in December 2019. **Only then, at least eighteen months after it started gathering evidence, it sought to set down an injunction application** ... [common brief, paras 171 and 172]

[123] Allarco failed to adequately explain this delay or why it chose to embark, via Mr. Best, on its long secret-shopper mission, which could only ever have proved that a piracy-fan poseur could trick some of the retailers’ employees into talking about piracy. In other words, as

conceived, this mission could never have revealed anything generally about retailer activities in the set-top box market.

[124] It is hard to conceive what incremental value Allarco derived from the repetition of Mr. Best's "experiment" for over a year, all aside from the value (or lack of value) in the very first experiment.

[125] Allarco's slow-motion pace, on an ultimately fruitless mission, **disentitles it to any injunctive relief** i.e. all aside from any other factors here.

[126] As for the **balance of convenience**, it is no contest. If the requested injunction is granted, the retailers will be blocked from selling these products with legitimate uses, their current or would-be customers will buy these devices at other retailers, and Allarco will be no further ahead.

[127] If the injunction is not granted, the retailers will be able to continue selling these legitimate-use products i.e. seek their share of the overall market in these devices. Allarco will still have to contend with the piracy phenomenon, but it cannot lay that at the retailers' doors.

[128] At the end of the day, it is virtually certain that the retailers will prevail in this litigation. Regardless of the legal banner unfurled (copyright, trademark, etc.), Allarco will be **unable to prove causation** i.e. any link between anything the retailers have done or do on the devices front and Allarco's subscription and overall business difficulties.

E. Conclusion

[129] Allarco has not shown a serious case to be tried or that any of the other injunction factors favour it. Accordingly, I dismiss its request for the requested injunction.

[130] I also dismiss its request for a mandatory (notice-to-previous-purchasers) injunction, which assumed the granting of the no-more-sales injunction.

F. Costs

[131] The retailers are entitled to their costs of this application on a **solicitor-and-client** basis, for the reasons offered by the retailers (see below), which I adopt as an accurate capture of the applicable law and the described facts, which reveal this lawsuit as nothing more than an **off-target anti-piracy campaign**:

In *Conway v Zinkhofer*, Kenny J. summarized the rules and factors related to awarding solicitor and client costs, pointing in particular to cases where a plaintiff has "done something to hinder, delay or **confuse the litigation**" or require a party to "prove facts that should have been admitted", or "**where there was no serious issue fact or law which required these lengthy, expensive proceedings**", or engaged in abuse of process, **allegations of improper and fraudulent conduct, defamation, threats, dishonesty and conspiracy**.

In *Chutskoff Estate*, Michalyshyn J. identified eleven categories or "indicia" of **vexatious litigation**, which Rooke ACJ recognized and reclassified in *Unrau*, including, notably:

Unsubstantiated allegations of conspiracy, fraud, and misconduct, including:

Pleadings that are “**replete with extreme and unsubstantiated allegations, and often refer to far-flung conspiracies involving large numbers of individuals and institutions**”, “**where the allegations may be unfounded in fact or merely speculative, but the language is vitriolic, offensive and defamatory**” ...

Here, Allarco’s pleadings, affidavits and written argument (not to mention sworn testimony on cross-examination) are **replete with these types of allegations**, which are pleaded [not] to support a legitimate cause of action, but simply to **defame or seek to harm the reputation** of the Defendants. There are far too many examples to list here but the following extracts serve to highlight the point:

Allarco’s Statement of Claim dated December 6, 2019

- a) “Defendants are engaged in **bait and switch tactics that deceive, confuse or mislead** John Doe Customers to motivate them to purchase Pirate Devices” (para. 23)
- b) “Defendants .. have willfully created .. a culture of widespread copyright infringement through the use of Pirate Devices which is **tantamount to stealing**” (para 24)
- c) “This is **especially egregious because the 4Stores Defendants hold themselves out to be reputable, experienced, and trustworthy retailers** in Canada which are relied on by Canadians for honest advice and service.” (para 25)
- d) “Defendants are **advertently contributing to the creation of a culture of widespread infringement and theft.**” (para 26)
- e) “They are advising their Customers **how to avoid detection** of their pirating activities.” (para 26)
- f) “Their actions are **high handed** ... “(para 26)
- g) “The Defendants or two or more of them are **conspirators engaged in acts contrary to the Broadcasting Act, Copyright Act, Radio-Communications Act, Trademarks Act, Criminal Code, ...** “ (para 50)
- h) “The Defendants or one or more of them are **counseling customers to steal.** ... “ (para 53)
- i) “Defendants ... **encourage a culture of dishonesty and theft** ... “ (para. 57)
- j) “The actions ... of the 4Stores ... are **high handed and advertently misleading** in the pursuit of profit and unreasonably interfere with the public’s interest in questions of **honesty, conscience and morality and preservations of Canadian Culture**” (para. 58)

Allarco's Injunction Brief dated January 29, 2021

- k) “The 4Stores **know and intend that their customers will buy and use the Pirate Devices to steal programming** from the Plaintiff.” (para 37)
- l) “They are **all part of a conspiracy to profit from illegal and unlawful activities.**” (para 37)
- m) “The Plaintiff’s evidence demonstrates that the **Pirating Industry is a multi-billion-dollar endeavour of which the 4stores play a major leadership role** in promoting and supplying pirating technology and technical knowledge to Canadians. Further, the unrefuted evidence is that the copyright piracy industry is a conspiracy that creates the pirating equipment, software, ecosystem and terminology to enable copyright piracy while avoiding, as best as they can, criminal and/or civil liability.” (para. 38)
- n) “The 4Stores and their suppliers and customers are **all part of an unlawful means conspiracy ...**” (para 84)
- o) “The Plaintiff also bases its claim on other serious questions including **secondary infringement of Copyright, inducing breach of copyright, willful blindness, recklessness, intentional torts, and unlawful means and conduct conspiracy where the unlawful acts include breaches of statutes as well as aiding, abetting, or counseling offences.**” (para 164)
- p) “In effect the 4Stores are **engaged in a ruse where each party in the conspiracy** denies responsibility while the customer steals the programming.” (para 173)
- q) “... the 4Stores in concert with **others involved in the conspiracy** obtain access to Super Channel’s exclusive programming.” (para 196)

Don McDonald's Affidavit

- r) “As a result, Super Channel is effectively **robbed of income.**” (para 10)
- s) “The 4Stores ... are engaged in **perpetrating and supporting this larceny.**” (para 26)
- t) “The **preaching by influential retailers in Canada that illegal behavior and stealing are acceptable and worthwhile endeavours and their encouragement that their Customers steal is shocking.**” (para 27)
- u) “These well-known, well-respected and supposedly reputable Canadian retailers are **counseling their customers to**

steal programming and showing them how to do it. ... “ (para 30)

v) “The Defendants ... are **actively promoting and encouraging a culture of dishonesty and theft** not only for their customers but also within their own business.” (para 33)

w) “ ... the knowledge that they have been **promoting this type of theft** has been available to the 4Stores for a few years.” (para 35)

x) “ ... I did not observe that the behaviour of the 4Stores had changed and I did not receive any offers of co-operation or changes to their behavior. .. **no remedial measures appear to have been adopted by the 4Stores.**” (para 37)

y) “Because of the public profile and well-known status of the 4Stores defendants, their actions influence not only their own customers, but by extension any other persons who become aware of their actions and the behaviours they promote. The overall impact of this reckless behavior is broadly-based and deeply concerning: it **contributes to a culture undermining copyright and legitimizing infringement among ordinary Canadians.** This creates a snowball effect causing serious financial losses to Super Channel and others in the broadcasting and film industries.” (para 40)

Donald Best's Affidavit

z) “ ... the **consistency and degree of commonality between the 4Stores increasingly made me suspect that this was beyond coincidence.**” (para 85)

aa) “ ... caused me to suspect that there were not just internal training and promotional programs within each 4Stores company - but that there were **coordinated high-level training and promotional programs directed to the 4Stores retail organizations and to their employees - probably by the pirate device manufacturers and I or wholesale distributors.**” (para 87)

bb) “ ... I noticed that in the 4Stores, there is an **aura and culture of stealing pirating copyright content that was promoted and pushed** in each organization and store location.” (para 91)

cc) “ ... 4Stores sales staff often revealed to me that **management had provided guidance about selling the pirate devices.**” (para 97)

dd) “This makes me **wonder if in some of the 8 stores where I was unable to complete the visit, if ‘nonlegitimate tv boxes’**

(pirate devices) were kept in the back room but not offered to me.” (paras 136 and 137)

ee) “In the context of recent revelations, news stories and US Senate Hearings into the activities of China using (and even secretly modifying during manufacture) consumer and other electronic devices to gather business and strategic intelligence - **the invasive and potentially malicious behaviours of 4Stores pirate devices become an even more critical concern.** This information is of such concern that I have chosen to protect the identity of persons involved in this aspect of the investigation pending further order of the court.” (para 173)

ff) “It is a fair statement that there is a **Culture of Stealing Copyrighted Content in Canada that is growing, and that the 4Stores actively promote the culture and profit from it.**” (para 167)

gg) “... this **Culture of Stealing is being deliberately propagated, promoted and normalized by various persons and businesses, including the 4Stores ...**” (para 207)

hh) “It is fair to say that the **4Stores together operate a coast to coast University of Stealing Copyrighted Content that instructs Canadians how to steal** - and sells them the pirate devices to do so.” (para 372)

ii) “The harm to our Canadian culture and our economy continues as the 4Stores continue to sell pirate devices and promote a **Culture of Stealing** copyrighted content.” (para 419)

jj) “The **selling and promotion of pirate devices to steal copyrighted content is endemic in each of the 4Stores.**” (para 421)

Dr. Cole’s affidavit, focused as it was on **irrelevant allegations [referred to earlier] about “malware” and Chinese “spying”**, is an example both of evidence that **unnecessarily delayed and complicated t[he litigation** (per *Conway, supra* at para 15(3)) and **escalated the litigation** by adding issues and subjects that were not part of the initial pleadings (per *Chutskoff, supra* at para 92(3)(b)(ii) and paras 109-111.

Allarco’s counsel’s conduct on cross-examinations also **unnecessarily delayed and complicated the litigation.** Mr., McKenzie’s name appears over **1,000 times in the two day transcript of Mr. McDonald’s cross-examination alone.**

Counsel was explicitly warned that “it is, not your job to answer questions nor, more importantly, is it your job to frame the questions that are asked”. He was provided with the decision of Master Funduk in *Canalta* during the cross-examination. He was repeatedly warned before and after being provided with that decision. In that decision, Master Funduk explained improper conduct during cross-examinations, including:

(a) **Interrupting to answer for the witness, give evidence or otherwise influence the witness' answer;**

- See, e.g., the interruptions at QQ. 28, 70, 98, 116, 123, 128, 129, 165, 172, 201, 204, 206, 208, 212, 213, 219, 234, 240, 245, 310, 326,330, 343, 373, 389, 414, 416, 437, 474-477, 491, 530, 562, 564, 570, 597, 606, 640, 677,680, 681, 748, 760,917, 925, 985, 993, 996, 1001, 1041, 1045, 1057, 1074, 1098, 1101, 1108, 1109, 1125, 1144, 1160, 1199, 1200, 1222, 1230, 1249, 1267, 1268, 1277, 1279, 1301, 1304, 1318, 1335, 1336, 1342, 1347, 1351, 1352, 1379, 1392

(b) **Interrupting to say “What does that mean?” or words to that effect;**

- See, e.g., the interruptions at Q. 220, 228-230, 265, 411, 413, 424, 475, 492, 496, 497, 611, 612, 801, 835, 848, 867, 961, 1025, 1140, 1142, 1157, 1158, 1162, 1225, 1234, 1306, 1365

(c) **Interrupting to say “Do you know?” or words to that effect;**

- See, e.g., the interruptions at QQ. 79, 202, 248-249, 256, 258, 485, 486, 570, 615, 616, 649, 659, 686, 819 ,824, 979, 1040, 1242, 1255, 1368

(d) **Interrupting to reframe a question or point out specific parts of a question to the witness;**

- See, e.g., the interruptions at Q. 43, 72, 124, 150, 180, 227, 387, 403, 490, A92, 500, 537, 546, 580, 596, 726, 836, 918, 981, 994, 1027, 1110, 1135, 1136, 1146, 1147, 1148, 1221, 1229, 1246, 1261, 1262, 1264, 1303, 1333, 1349, 1374, 1375, 1382 . . .
[common brief, paras 380-384]

[132] On the test for solicitor-and-client costs, see also *PricewaterhouseCoopers Inc v Perpetual Energy Inc*, 2021 ABCA 16:

... There are some recognized situations when solicitor and client costs can be awarded, generally when there has been **reprehensible, scandalous or outrageous conduct** by a party: *Young* [[1993] 4 SCR 3] at p. 134. The misconduct alleged must arise from the **conduct of the litigation**; a distaste for the unsuccessful litigant, its pre-litigation conduct, or its cause of action is not sufficient: *Luft v Taylor, Zinkhofer & Conway*, 2017 ABCA 228 at paras. 72-73, 53 Alta LR (6th) 44; *Pillar Resource Services Inc v PrimeWest Energy Inc*, 2017 ABCA 19 at paras. 8-9, 153, 46 Alta LR (6th) 224. ... [para 179]

[133] As reflected in the above excerpts, the necessary elements are all present here.

[134] Beyond the *Copyright-Act*-based stay of the main action imposed above, Allarco's action is stayed pending payment to each of the retailers of their solicitor-and-client-level costs of this application.

G. Security for costs

[135] In light of the stays imposed above on the main litigation, I am **deferring further consideration** of the retailers' security-for-costs application, which was argued at the same time as Allarco's injunction application.

[136] I invite further submissions from the retailers about the continued necessity of security for costs, to be sent, via letter to my assistant (maximum two pages per party), by May 7, 2021.

Heard via Webex on March 2nd to 5th and 19th, 2021.

Dated at Edmonton, Alberta this 30th day of April, 2021.

M. J. Lema
J.C.Q.B.A.

Appearances:

K. William McKenzie
KWM Law Professional Corporation

Krista McKenzie
McKenzie Professional Corporation

Charles P. Russell, Q.C.
McLennan Ross LLP
for the Plaintiff/Applicant Allarco Entertainment 2008 Inc.

Jim Holloway and Megan Paterson
Baker & McKenzie LLP
for the Defendant/Respondent Staples Canada LLC

Jonathan Columbo and Amrita V. Singh
Marks & Clerk Law LLP
for the Defendant/Respondent Best Buy Canada Ltd.

Christopher S. Wilson and James Jeffries-Chung
Norton Rose Fulbright Canada LLP
for the Defendant/Respondent London Drugs Limited

Ted A. Kalnins and Yuri Chumak
Dickinson Wright LLP
for the Defendant/Respondent Canada Computers Inc.