Federal Court  Cour fédérale

Date: 20210326

Docket: T-1443-18

Citation: 2021 FC 272

Ottawa, Ontario, March 26, 2021

PRESENT: The Honourable Mr. Justice Mosley

BETWEEN:

AUGUST IMAGE, LLC

Plaintiff

and

AIRG INC.

Defendant

ORDER AND REASONS

I. Introduction

[1] This is an appeal by motion in writing under Rules 51 and 369 of the *Federal Courts Rules*, SOR/98-106, of the Order of Prothonotary Ring dated December 15, 2020. In that Order the Plaintiff's motion to strike multiple paragraphs of the Defendant's Statement of Defence [the Defence] was granted without leave to amend. The Plaintiff's motion to strike one paragraph of the Defence and a series of questions from the Defendant's Second Written Examination of the

Plaintiff were dismissed. The Plaintiff was granted leave to amend paragraph 3 of its Statement of Claim [the Claim] to remove the prefix "www." from the description of the Defendant's domain address.

[2] The Order also set out a revised schedule for the filing of the revised pleadings and answers and required the parties to propose a timetable for the completion of the remaining pre-trial steps in the proceeding. As no costs were requested by the Plaintiff, none were awarded.

[3] For the reasons that follow, the appeal is allowed in part.

II. **Procedural History**

[4] This is a simplified action for copyright infringement filed on July 27, 2018. The Defence was filed on October 9, 2018. An Order for security for costs was issued on June 20, 2019, as the Plaintiff was a foreign corporation. A motion to set aside that Order was dismissed on July 23, 2019. By Order of the Chief Justice on November 25, 2019, the matter was continued as a specially managed proceeding and Prothonotary Ring was assigned as Case Management Judge. On December 11, 2019, she approved the parties' litigation plan and set out a schedule for the further steps to be taken before trial.

[5] The Plaintiff filed its motion to strike and to amend its Claim on July 16, 2020. The motion was for:

> 1. An Order striking Paragraphs 8-12, 14-20,23,25,31,33,34 and 48 of the Defendant's Statement of Defence pursuant to Rule 221 of the *Federal Court Rules*.

2. An Order striking questions 3(a)-(e), 4, 5 (a)-(b), 8, 9,10, 13, 14 and 15 from the Defendant's second Written Examination (the "Questions"), pursuant to rule 99(2) of the *Federal Courts Rules*.

3. An Order that www.buzz.airg.com be read and replaced as buzz.airg.com in all materials pursuant to rule 75(1) of the *Federal Courts Rules*.

4. An Order that the Defendant, provide a sworn Affidavit in answer to the Written Examination from the Plaintiff on the basis of the amendment granted.

[6] The motion contended that the Defendant's pleadings "are immaterial, scandalous, frivolous, vexation [sic] and disclose no reasonable defence. " It was alleged that the Defendant's questions are objectionable pursuant to Rule 242(1) and that the Defendant had refused to provide valid answers to the Plaintiff's questions as a result of the technicality that its website did not include the "www." prefix.

[7] The Defendant filed its responding motion record on July 27, 2020. The matter was considered without personal appearance and a decision was rendered on December 15, 2020. In her reasons, Prothonotary Ring found that the Defendant had failed to provide material facts to support its claim in paragraph 8 of its Defence that the Plaintiff is a "copyright troll" as discussed in *Voltage Picture LLC v John Doe*, 2014 FC 161 [*Voltage*]. She found the paragraph to be intended as a derogatory attack on the Plaintiff and therefore scandalous, frivolous or vexatious pursuant to Rule 221(1) (c).

[8] Paragraphs 9 to 12, 16, 17, 19, 20, 23, 25, 31, 33 and 34 of the Defence were found by Prothonotary Ring to relate to alleged acts of professional misconduct by Plaintiff's counsel and

therefore irrelevant, scandalous, frivolous and vexatious in nature. Paragraph 18 was found to be subject to the same flaws and in addition, lacked sufficient particulars of the alleged bad faith conduct of Plaintiff's counsel.

[9] Paragraph 14, which contains a plea that the allegations made by Plaintiff's counsel in pre-litigation demand letters "were simply made up", was also struck for the same reasons and also as an expression of opinion rather than a statement of material facts. An allegation in paragraph 15 relating to an unknown third party named in the demand letters was struck as speculative and irrelevant. Paragraph 48, which pleads a limitation period and laches, was upheld.

[10] Having determined that portions of the Defence would be struck, the Prothonotary concluded that the defects could not be cured by amendment given the nature of the defects.

[11] The Plaintiff's motion to strike the Defendant's questions was dismissed as moot by reason of an order issued on July 20, 2020 and for the Plaintiff's failure to discharge its burden to demonstrate cause for the requested order.

[12] The motion for leave to amend paragraph 3 of the Claim to remove the prefix "www." was granted as a minor correction to the description of the Defendant's domain name. In light of that amendment, the Plaintiff was granted leave to serve an amended list of written questions based on the change of the domain name.

[13] The present motion to set aside the Prothonotary's Order was filed on December 22, 2020. Under Rule 369 (2), a response was required from the Plaintiff within ten days. No responding motion record was received by the Registry prior to February 2, 2021. On that date, the Registry contacted counsel for the Plaintiff to confirm that the motion on behalf of the Defendant had been received. Counsel for the Plaintiff submitted a letter seeking an extension of time to serve and file a response. That informal request was opposed by the Defendant and denied by the Court in a direction issued on February 5, 2021. The Court's direction noted that the Plaintiff's submissions on the issues addressed by the December 15, 2020 Order were included in the Defendant's appeal motion record.

[14] On this appeal, the Defendant submits that the Prothonotary erred in striking portions of the Defence, lacked jurisdiction to strike without leave to amend in the absence of notice and a hearing, and erred in permitting the amendment to the description of the Defendant's domain name.

III. **Issues**

[15] The central issue on this appeal is whether the Prothonotary erred in granting the Plaintiff's motion to strike portions of the Defence without leave to amend. A secondary issue is whether the Prothonotary erred in permitting the amendment to the description of the Defendant's domain name.

IV. **Relevant Legislation**

[16] The following provision of the *Copyright Act*, RSC 1985, c C-42 is relevant to this appeal:

Factors to consider	**Facteurs**
38.1 (5) In exercising its discretion under subsections (1) to (4), the court shall consider all relevant factors, including	**38.1 (5)** Lorsqu'il rend une décision relativement aux paragraphes (1) à (4), le tribunal tient compte notamment des facteurs suivants :
[…]	[…]
(b) the conduct of the parties before and during the proceedings;	**b)** le comportement des parties avant l'instance et au cours de celle-ci;
[…]	[…]

[17] The following provisions of the *Federal Courts Rules*, SOR/98-106 are relevant to this appeal:

Appeal	**Appel**
51 (1) An order of a prothonotary may be appealed by a motion to a judge of the Federal Court.	**51 (1)** L'ordonnance du protonotaire peut être portée en appel par voie de requête présentée à un juge de la Cour fédérale.
Amendments with leave	**Modifications avec autorisation**
75 (1) Subject to subsection (2) and rule 76, the Court may, on motion, at any time, allow a party to amend a document, on such terms as	**75 (1)** Sous réserve du paragraphe (2) et de la règle 76, la Cour peut à tout moment, sur requête, autoriser une partie à modifier un document, aux conditions qui

will protect the rights of all parties.

Objections

99 (2) A person who objects to a question in a written examination may bring a motion to have the question struck out.

Motion to strike

221 (1) On motion, the Court may, at any time, order that a pleading, or anything contained therein, be struck out, with or without leave to amend, on the ground that it

[…]

(c) is scandalous, frivolous or vexatious,

[…]

Objections permitted

242 (1) A person may object to a question asked in an examination for discovery on the ground that

(a) the answer is privileged;

(b) the question is not relevant to any unadmitted allegation of fact in a pleading filed by the party

permettent de protéger les droits de toutes les parties.

Objection

99 (2) La personne qui soulève une objection au sujet d'une question posée dans le cadre d'un interrogatoire écrit peut, par voie de requête, demander à la Cour de rejeter la question.

Requête en radiation

221 (1) À tout moment, la Cour peut, sur requête, ordonner la radiation de tout ou partie d'un acte de procédure, avec ou sans autorisation de le modifier, au motif, selon le cas :

[…]

c) qu'il est scandaleux, frivole ou vexatoire;

[…]

Objection permise

242 (1) Une personne peut soulever une objection au sujet de toute question posée lors d'un interrogatoire préalable au motif que, selon le cas :

a) la réponse est protégée par un privilège de non-divulgation;

b) la question ne se rapporte pas à un fait allégué et non admis dans un acte de procédure déposé par la partie

being examined or by the examining party;	soumise à l'interrogatoire ou par la partie qui l'interroge;
(c) the question is unreasonable or unnecessary; or	**c)** la question est déraisonnable ou inutile;
(d) it would be unduly onerous to require the person to make the inquiries referred to in rule 241.	**d)** il serait trop onéreux de se renseigner auprès d'une personne visée à la règle 241.
Motions in writing	**Procédure de requête écrite**
369 (1) A party may, in a notice of motion, request that the motion be decided on the basis of written representations.	**369 (1)** Le requérant peut, dans l'avis de requête, demander que la décision à l'égard de la requête soit prise uniquement sur la base de ses prétentions écrites.

V. **Standard of Review**

[18] As stated by the Federal Court of Appeal in *Hospira Healthcare Corp v Kennedy Institute of Rheumatology*, 2016 FCA 215 [*Hospira Healthcare*], the standard of review on an appeal of a discretionary decision of a Prothonotary is correctness for questions of law and palpable and overriding error for questions of fact and questions of mixed fact and law for which there are no extricable questions of law: *Housen v Nikolaisen*, 2002 SCC 33 at paras 8, 10, 36, 83 [*Housen*]; *Rodney Brass v Papequash*, 2019 FCA 245.

[19] The standard of palpable and overriding error is high and difficult to meet and was described by the Federal Court of Appeal in *Canada v South Yukon Forest Corporation*, 2012 FCA 165 at para 46 in these terms:

> "Palpable" means an error that is obvious. "Overriding" means an error that goes to the very core of the outcome of the case. When arguing palpable and overriding error, it is not enough to pull at leaves and branches and leave the tree standing. The entire tree must fall.

[20] Additionally, on a Rule 51 appeal, motions judges should bear in mind that the case managing prothonotary is very familiar with the particular circumstances and issues of the case and that, as a result, intervention should not come lightly. This does not mean, however, that errors, factual or legal, should go undetected: *Hospira Healthcare* at para 103.

VI. **Analysis**

A. *Did the Prothonotary err in striking portions of the Defence without leave to amend?*

[21] Applying the deferential standard of review on an appeal from a prothonotary's decision in case management proceedings, I would not normally interfere with an interlocutory ruling on pleadings. And I am mindful of the Federal Court of Appeal's guidance on the interpretation of Rules regarding the pleading of material facts in *Merchant Law Group v Canada Revenue Agency*, 2010 FCA 184 at para 34.

[22] However, I am persuaded that the Defendant makes a compelling argument that 38.1(5)(b) of the *Copyright Act* expressly permits defences to a statutory damage claim to include the Plaintiff's conduct before litigation. As noted above, the enactment provides that the Court should take into account, among other factors, the conduct of the parties before and during the proceedings.

[23] In this instance, such actions would include the manner in which the Plaintiff made demands for the payment of damages and solicitor-clients costs first to an apparently non-existent entity and then to the Defendant; and pressing both for an early settlement. This was, arguably, consistent with the actions of a "copyright troll", as described in *Voltage*, above, attempting to enforce an alleged copyright through threatened litigation in an aggressive manner. While it is not for this Court to determine whether the Plaintiff is or is not a "copyright troll" on this motion, the Defendant should not be denied an opportunity to make that argument at trial in light of the express language in the statute that permits conduct by the parties before and after litigation is commenced to be raised as a defence. In addition, the conduct of the Plaintiff may also be relevant to the issue of costs. See for example: *1395804 Ontario Ltd (Blacklock's Reporter) v Canada (Attorney General)*, 2016 FC 1400 at para 7.

[24] While it is correct, as stated by Prothonotary Ring, that "there is no reasonable cause of action for violation of a Law Society's professional code of conduct" and that questions relating to whether there has been a breach of any rule of professional conduct should be determined by the Law Society, not the Court, the Defendant is not advancing a cause of action and is entitled to raise defences to the Plaintiff's claims. These include the factors set out in s 38.1 (5) (b) of the *Copyright Act*.

[25] Prothonotary Ring held that the argument based on s 38.1(5) (b) of the *Copyright Act* lacked merit because it refers to "the conduct of the <u>parties</u> before and during the proceedings" [emphasis in the original]. The paragraphs in question, she held, did not plead facts relating to

the conduct of any corporate officer or employee of the Plaintiff but rather to alleged professional misconduct by their former counsel who is not a party to the litigation.

[26] In my view, “the conduct of the parties” is not limited to the actions of corporate officers or employees and is broad enough to encompass actions taken on a party’s behalf by counsel. To interpret it otherwise would limit the scope of s 38.1(5)(b) and preclude the Court from considering the actions of lawyers carried out on behalf of a party. The fact that it may “cast a derogatory light on Plaintiff’s counsel” is itself an insufficient basis to exclude statements of fact and law, which may be relevant factors to be taken into consideration at trial both on the merits of the action and on liability for costs. The action is not a disciplinary proceeding but the actions of counsel acting on behalf of the Plaintiff cannot be exempt from scrutiny. And a client may be held to account for their lawyer’s actions in costs awards.

[27] The Defendant pleaded that the Plaintiff’s allegations were untrue, unsupported by any evidence and not advanced in good faith. The allegations regarding commercial use and financial benefit lack supporting statements of material facts. Neither party requested particulars. Considerable delay was occasioned by the failure of the Plaintiff to move the action forward. In the circumstances, the allegations and pleas in defence should, in my view, have been left for the trial judge to determine based on the evidence and submissions that the parties put forward.

[28] The Defendant objects to the paragraphs being struck without leave to amend on the grounds that the Plaintiff had not sought that relief nor had there been any notice provided that it was being considered by the Court.

[29] Rule 221 (1) provides that a pleading or anything contained therein may, by order, be struck out with or without leave to amend. The Plaintiff's Notice of Motion cited the text of Rule 221(1) but made no further reference to leave to amend. Its written submissions on the motion again cited the text of the Rule but did not discuss the possibility of amendment. However, neither did the Defendant in its responding written submissions.

[30] Prothonotary Ring cited *Sivak v Canada*, 2012 FC 272 at para 94 and *Gagné v Canada*, 2013 FC 331 at para 22 in support of her conclusion that the impugned paragraphs of the Defence should be struck out without leave to amend. In *Sivak*, the Court struck out portions of a claim without leave to amend because it was satisfied that there was nothing to suggest that the plaintiffs could establish "the scintilla of a cause of action" and had not sought leave to amend. In *Gagné*, a draft amended statement of claim was presented on appeal which had not been before the prothonotary. The Court concluded that it could not consider the amended claim for that reason.

[31] Rule 221 does not require the Court to provide notice of its intent to strike pleadings without leave to amend or require that it provide an opportunity for the party to be heard before the order is made: *Brauer v. Canada*, 2020 FC 828 at paras 40-42 I do not accept the Defendant's argument that the prothonotary was without jurisdiction to refuse leave to amend. But to be struck without leave to amend, any defect in the statement of defence must be one that is not curable by amendment: *Simon v Canada,* 2011 FCA 6 at para 8.

[32] In the circumstances of this case, and in particular the amount of time that had passed before the motion to strike was filed and before a decision was rendered, it would have been preferable for the prothonotary to have provided the Defendant with an opportunity to cure the alleged defects in the Defence. Here it was not plain and obvious that no amendment could be made especially to those paragraphs which the prothonotary struck on the basis that there were insufficient material facts pleaded in support. The prothonotary granted leave to the Plaintiff to amend its Statement of Claim. The same consideration should have been afforded the Defendant.

B. *Did the Prothonotary err in allowing amendment of the Statement of Claim?*

[33] Prothonotary Ring granted leave to the Plaintiff to amend its Statement of Claim stating:

> Rule 75 of the Rules provides that the Court may allow a party to amend a document on such terms as will protect the rights of all parties. The general rule is that "an amendment should be allowed at any stage of an action for the purpose of determining the real questions in controversy between the parties, provided, notably, that the allowance would not result in an injustice to the other party not capable of being compensated by an award of costs and that it would serve the interests of justice"…[Citations omitted]

[34] The Defendant argues that the prothonotary did not consider the evidence of Frederick Ghahramani filed by the Defendant that "www." is not a prefix or misnomer, but instead a critical part of a web address. Of the 600 domains related to airG none included www.buzz.airg.com according to that evidence.

[35] The Plaintiff had used the "www." address in each of its demand letters, draft and final Statements of Claim and repeatedly in its Written Examination of the Defendant. It filed no

evidence to explain why it had chosen to litigate on the basis of an improper description of the Defendant's websites and had waited for over two years to correct the error.

[36] The Defendant contends that the prothonotary did not consider or properly consider the factors set out in *Scannar Industries Inc et al v Canada (Minister of National Revenue)* (1993) 69 FTR 310 (FC), affirmed in 172 NR 313 (FCA) namely:

a) The timeliness of the motion to amend;

b) The extent to which the amendment would delay an expeditious trial;

c) The extent to which the original position caused another party to follow a course which is not easily altered;

d) Or whether the amendment facilitates the Court's consideration of the merits of the action.

[37] The prothonotary considered that the amendment was a minor correction to the description of the Defendant's domain name. It did not add or substitute a new cause of action or deprive the Defendant of a limitation defence. Deciding whether to allow an amendment required a balancing exercise on a case-by-case basis and ultimately "it boils down to a consideration of simple fairness, common sense and the interest that the courts have that justice be done". *Continental Bank Leasing Corp v R*, [1993] TCJ No 18, (1993) 93 DTC 298 at page 302 cited with approval by the Federal Court of Appeal in *Canderel Ltd v Canada*, 1993 CanLII 2990 (FCA), [1994] 1 FC 3 (CA).

[38] The decision on the motion to amend could have gone either way. The prothonotary was correct to conclude that a reasonable person reading the Claim would understand it to be

referring to the Defendant's website notwithstanding the 600 domains in which "www." does not appear.

VII. **Conclusion**

[39] I am satisfied that the prothonotary made a palpable and overriding error in striking the following paragraphs of the Defence without leave to amend: 8-12, 14-20, 23, 25, 31, 33, and 34.

[40] The prothonotary did not err in permitting the amendment of the Claim to delete the prefix "www.".

[41] Costs shall be in the cause.

ORDER IN T-1443-18

THIS COURT ORDERS that:

1. The motion to appeal the decision of Prothonotary Ring dated December 15, 2020 is granted in part;

2. The matter is remitted to the prothonotary to determine whether the impugned paragraphs can be amended in accordance with these reasons; and

3. Costs shall be in the cause.

"Richard G. Mosley"
Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-1443-18
STYLE OF CAUSE:	AUGUST IMAGE, LLC v AIRG INC

MOTION IN WRITING CONSIDERED AT OTTAWA, ONTARIO PURSUANT TO RULE 369 OF *THE FEDERAL COURTS RULES*

ORDER AND REASONS:	MOSLEY J.
DATED:	MARCH 26, 2021

APPEARANCES:

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