

COURT FILE NO.: 05-CV-297955PD3
DATE HEARD: September 18, 2006
ENDORSEMENT RELEASED: September 27, 2006

SUPERIOR COURT OF JUSTICE - ONTARIO

RE: CLOSE UP INTERNATIONAL LTD. v. 1444943 ONTARIO LTD. (also known as VIDEO ARENA INC.), 1179468 ONTARIO LTD. (also known as RADUGA INC.), ALEXANDRE AVROUTINE and LIDIA YAKUBOVSKY

BEFORE: Master R. Dash

COUNSEL:

Nicholas Cartel, for the Plaintiff

Vadim Kats, for the defendants 1444943 Ont. Ltd., 1179468 Ont. Ltd. and Avroutine

Robert Levine, for the defendant Yakubovsky

Roderic Hinton, for the defendants Krugozor, Chyzyhk, Larin, Russian Kino and Sytnyk

Natalie Medovoy, for the defendants Russian House, Konev and Mankaouskas

Vernon Balaban, for the defendants 1562944 Ont. and Blizniuk

Shana Dale, for the defendants Belisa, Pinsky, 1614622 Ont, International Discount and Zaretsky

ENDORSEMENT

[1] This action is one of a number of actions commenced by Close Up International Ltd. (“CUI”), a U.S. company, for infringement of its copyright in films. The plaintiff alleges that the defendants unlawfully reproduced, sold, rented and distributed its films without licence from the plaintiff. This is a motion by the plaintiff to amend the statement of claim by adding as parties two Canadian companies, Close Up Holdings Canada Incorporated, a federally incorporated company resident in Ontario (“CUC”) and Close Up Canada Inc., an Ontario incorporated and resident company (“CUO”), that had received by way of assignment from CUI certain distribution and other rights in Canada, (referred to jointly as the “Ontario Companies”) as well as three Russian companies, two that produced the films and one that had worldwide rights to reproduce and distribute the copyrighted films.

[2] Although one action is referenced in the above style of cause the motion herein was one of 10 similar motions in 10 separate actions heard together and this endorsement applies to all actions.¹

¹ This endorsement applies to motions to amend the statement of claim in each of the following actions: 05-CV-297953PD2, 05-CV-298322PD3, 05-CV-297955PD3, 05-CV-298319PD1, 05-CV-297957PD2, 05-CV-298321PD2, 05-CV-297961PD3, 05-CV-297964PD3, 05-CV-297962PD1 and 05-CV-297958PD1. An

[3] The motions to amend followed two decisions by Master Egan to award security for costs against CUI, a non-resident plaintiff, in two of the actions. The defendants in each action oppose the amendments on three grounds. Firstly they argue the claims by the two Ontario Companies are untenable at law as they have no interest in and no standing to enforce the copyright which is owned by CUI. Secondly they argue that the consent of the proposed plaintiffs was not attached as required by rule 5.04(3). Finally they argue that the motions to add resident corporations as plaintiffs should be denied as an abuse of process as they were brought for the sole purpose of avoiding security for costs. The defendants do not object to the addition of the proposed Russian plaintiffs, but I am invited by the plaintiff to consider whether the interests of justice require it. The defendants also attack portions of the proposed amended statement of claim based on an improper plea of similar facts, lack of particularity and untenable pleas personally against the individual defendants.

THE PROPOSED AMENDED PLEADING

[4] In the draft fresh as amended statement of claim, all plaintiffs claim various declarations respecting the films defined as the Close-Up Works (“CUW”) including a declaration that the defendants have infringed the copyright in the CUW and a declaration that the defendants breached the plaintiffs’ exclusive licence and thereby infringed its copyright. The plaintiffs also seek a declaration that CUI is the owner of all rights to the trademark in the words Close-Up and the associated packaging and that CUI is owner of all rights to copyright in the packaging. They seek declarations relating to the defendants’ passing off their infringing works as CUW. They claim for an injunction under section 34(1) of the Copyright Act R.S.C. 1985, c. C-42 (the “Act”) to restrain the defendants from infringing the plaintiffs’ copyright by selling infringing works and reproducing labels and seek an order that the infringing works and labels be destroyed. The plaintiffs seek damages for passing off and statutory damages under section 34(1) and 38.1 of the Act, an accounting and non-pecuniary damages to the reputation of CUI.

[5] The plaintiffs plead in paragraphs 4 and 22 that CUI is the owner of the copyright in the CUW and that CUI holds the exclusive right to reproduce the CUW. In paragraph 23 the plaintiffs plead that CUI has “granted a right of action for enforcement of intellectual property rights pursuant to sub-licence agreements” to CUC and CUO and in paragraph 24 that CUC and CUO are the “exclusive sub-licensees of copyright in the CUW in Canada”. In paragraph 25 the plaintiffs plead that CUC through the grant of an exclusive sub-licence “acquired an interest in the copyright” of the CUW. Finally it is pleaded in paragraph 27 that CUC and CUO are the plaintiffs carrying on this action “on behalf of all plaintiffs” through the right of action in the licence agreements.

[6] The proposed pleading read in isolation indicates that the Ontario Companies have an interest in copyright acquired through an exclusive licence and a right to enforce the copyright through action. The plaintiff however has proffered in evidence the actual agreements referenced in the pleading that purport to grant the rights to the Ontario Companies and they tell a very different story. “Documents referred to, and relied upon in a proposed pleading are incorporated in the

eleventh action, 05-CV-297948PD3 had been dismissed by the registrar as case expired and a motion to set aside the dismissal was refused. Rather than appeal, the plaintiff commenced a fresh action, 06-CV-317963PD1, in which all plaintiffs are named. As a result the motions today do not concern these last two referenced actions.

pleading and should form part of the motion materials”: *Plante v. Industrial Alliance Life Insurance Co.* (2003), 66 O.R. (3d) 74 (S.C.J.) at p. 83.

THE AGREEMENTS

[7] Two Russian film studios, referred to as Mosfilm and Lenfilm, granted exclusive worldwide copyright and licence to a third Russian company referred to as Krupniy Plan (referred to cumulatively as the Russian Companies). Krupniy Plan granted exclusive licence and copyright in the films for the United States and Canada to the plaintiff, CUI. Therefore, by way of partial assignment of copyright from the Russian Companies, CUI has the exclusive right to reproduce and distribute the films throughout the United States and Canada.

[8] By Agreement dated June 30, 2005 (the “June 2005 Agreement”) CUI granted CUO the exclusive right to wholesale distribution of the films in Ontario. All copies of the films were to be supplied by CUI. CUO had no right to make reproductions. CUO was to “encourage” wholesale customers in Ontario to buy directly from CUO. CUI was not prohibited from selling to such customers in Ontario, but if it did, it was required to credit CUO with the sale price received less certain costs, such that CUO retains all “profits” therefrom. CUI agreed to “perform any necessary actions to suppress video piracy” in Toronto against stores “violating the copyright in the Films.” CUO was given the “legal rights to independent and joint (with the Dealer) actions to suppress illegal copying and distribution of the Films of the Dealer by third parties.” CUI is referred to as the “Dealer”. The contract by its terms expired in June 2006.

[9] By Distributorship Agreement dated March 27, 2006 (the “March 2006 Agreement”) CUI granted CUC the exclusive right to wholesale distribution of the films in Canada except Ontario until August 31, 2006 and thereafter throughout Canada including Ontario. The preamble references a “license to sell, distribute and rent” the licensed products in the territory. All copies of the films were to be supplied by CUI. CUC had no right to make reproductions. CUC was to “recommend” to retailers in the territory to buy directly from CUC. CUI was not prohibited from selling to such customers in Canada, but if it did, it was required to credit CUC with the sale price received less certain costs, such that CUC receives all “profits” of such direct sales. The agreement refers to CUI as the “dealer” and provides that CUC “has full legal rights for joint actions with the Dealer to enforce and protect all *rights of the dealer* in any court” in Canada (emphasis added). The agreement is silent on CUC enforcing its own distribution rights.

[10] The plaintiff refers to both of the above agreements as exclusive licensing agreements. I agree they are licensing agreements, but it is less clear that they are exclusive, as opposed to sole, licensing agreements. This becomes an important distinction when determining if the Ontario Companies have any copyright interest in the films.

[11] Finally, pursuant to a Share Purchase Agreement dated June 5, 2006 (the “June 2006 Agreement”) CUC purchased all the “shares and debt” of CUO. There is a reference to a monetary sum representing the value of CUO’s interest in the licence from CUI as a component of the purchase price of the shares. The plaintiff submits that as a result of this agreement CUC obtained all of the rights of CUO under the June 2005 Agreement and is thus able to assert claims in Ontario

for unlawful distribution of the films. I disagree. CUC became the sole shareholder of CUO, and with it the right to control the actions of CUO, but in my view it did not specifically purchase its assets, including the license to distribute in Ontario. There is no specific assignment from CUO to CUC of any rights under licence. This is of little consequence however since for purposes of this motion the rights of CUC as a separate entity to distribute in Ontario arise out of the March 2006 Agreement which granted rights in Ontario as of September 1, 2006.

ARE THE AMENDMENTS ADDING THE ONTARIO COMPANIES TENABLE?

[12] Amendments to a pleading and additions of a party should not be allowed unless the amended pleading is legally tenable, i.e. whether it discloses a cause of action: *Plante v. Industrial Alliance Life Insurance Co.*, supra, at p. 85. Masters have jurisdiction to determine whether the proposed amendments are tenable at law: *Kane Yee Pharmacy Ltd. v. TDM Drugs Inc.* (1997), 17 C.P.C. (4th) 126 (Div. Ct.). The court should not conduct a detailed examination of the evidentiary merits of a proposed amendment but should concern itself only with whether there is a prima facie meritorious case in the sense that there is a tenable plea set out in the pleading itself and the documents referred to and relied upon therein, as such documents are incorporated in the pleading and should form part of the motion material: *Plante* at p. 83-84.

[13] Under section 35(1) of the Act an infringing party is liable to pay damages and disgorgement of profits to the “owner of the copyright” and under section 38.1 a “copyright owner” may elect instead to recover statutory damages. Under section 38 of the Act “the owner of the copyright” may recover possession of infringing copies. Section 34(1) states that “the owner of the copyright” is entitled to all remedies by way of injunction, damages, accounts and delivery up. It is therefore clear that only a copyright owner is entitled to the relief claimed in the statement of claim for infringement, damages, injunction and recovery of infringing property. It is common ground that CUI is the owner of the copyright in question, but there is an issue whether CUC and CUO can be considered an owner of an interest in the copyright by assignment in accordance with the various agreements referred to herein. Since it is pleaded that only CUI is the owner of the trademarks, the relief respecting trademarks and passing off belong to CUI.

[14] Do CUC and CUO have standing to bring the action as copyright owner or otherwise by virtue of the licensing agreements? Under section 3(1) of the Act “copyright” means “the sole right to produce or reproduce the work.” Since CUC and CUO have no right to reproduce the films, they cannot be said to be an owner of copyright under that section. Section 13(4) of the Act provides however that the owner of the copyright may assign the right, wholly or partially and “may grant any interest in the right by licence” and under section 13(5) where an assignee becomes entitled “to any right comprised in copyright” the assignee, with respect to the partial rights assigned, shall be treated as owner of the copyright. Section 13(6) provides that a right of action for infringement of copyright may be assigned “in association with the assignment of the copyright” or with “the grant of an interest in the copyright by licence”. Therefore all of these rights obtained by assignment require an assignment of an interest in the copyright. The question is whether the June 2005 and March 2006 Agreements granted an interest in the copyright by licence.

[15] Section 13(7) of the Act provides that a “grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.” The jurisprudence distinguishes three types of licences. In *Murray (H.M. Inspector of Taxes) v. Imperial Chemical Industry Ltd.* (1967), 44 T.C. 174 (C.A.) at p. 211 Lord Denning explains the difference between an ordinary licence, a sole licence and an exclusive licence:

An ordinary license is a permission to the licensee to do something which would otherwise be unlawful. That leaves the licensor at liberty to do it himself and to grant the licenses to other persons also. A sole license is a permission to the licensee to do it, and no one else, save that it leaves the licensor himself at liberty to do it. An exclusive license is a permission which is exclusive to the licensee, so that even the licensor himself is excluded as well as anyone else.

[16] Consistent with that common law definition, exclusive licence is defined in section 2.7 of the Act as “an authorization to do any act that is subject to copyright to the exclusion of all others including the copyright owner.” Both the June 2005 Agreement and the March 2006 Agreement purport to give CUO and CUC respectively an exclusive right to distribute the films in Ontario or Canada, but neither exclude CUI from distributing the films in Ontario itself. While both agreements require that the Ontario Companies “recommend” or “encourage” retailers to purchase directly from them and provide that the Ontario Companies still get the profit if CUI sells direct to the retailer, they do not go that additional step of excluding CUI from selling in Ontario and in fact CUI specifically retains that right. As a result, CUC and CUO do not have an exclusive licence within the meaning of the Act. They have but a sole license. Therefore, the grant of the licence does not constitute a grant of an interest in the copyright.

[17] The plaintiff also refers to a Certificate of Registration of Copyright in one film dated July 15, 2006 from CUI to “Close-Up Canada” and to section 53 (2.2) of the Act which states that “a certificate of registration of a licence granting an interest in a copyright is evidence that the interest recorded in the certificate has been granted and that the licensee is the holder of that interest.” However, as stated in *955105 Ontario Inc. v. Video 99* (1993), 48 C.P.R. (3d) 204 (O.C.G.D.): “No proof of title is required on an application for registration. The Copyright Office assumes no responsibility for the truth of the facts asserted in the application and conducts no independent examination.” A plaintiff who produces such a certificate “has adduced some evidence in support of his case” but a court would only uphold the certificate as proof of such interest “in the absence of any evidence to contradict it.” Here, the plaintiff has produced the actual agreements that form the basis of the claim to a copyright interest and this is of course the best evidence. Upon examination of those documents I have concluded, as indicated above, that neither of the Ontario Companies was granted an interest in the copyright in the films.

[18] Since the Ontario Companies have no interest in the copyright in the films, they cannot obtain for their own benefit any of the relief set out in the statement of claim. The question remains whether they can bring action in Ontario to enforce rights belonging to CUI as owner of the copyright by way of damages or statutory damages, injunction and surrendering of copies. Although the June 2005 Agreement gave CUO the independent and joint right with CUI to suppress illegal copying and distribution, the March 2006 Agreement was significantly different – it gave CUC the legal right only for “joint” (and not independent) action together with CUI and the right granted was to enforce only the rights of CUI. Since the current licence in Ontario belongs to CUC by virtue of

the March 2006 Agreement, it is the terms of that Agreement that govern. Therefore if CUC has a right to enforce in Ontario, such action must be taken jointly with CUI and may be taken only to enforce the rights of CUI. In my view however, given the wording of the Act and the case law referenced below, a right to bring an action to enforce copyright cannot be granted by contract to a person without an accompanying grant of an interest in the copyright. Copyright is created by statute and any rights to enforce copyright must be in accordance with the Act.

[19] At first blush sections 36(1) and (2) of the Act appear to create rights to enforce in favour of a party with no interest in the copyright since it refers to a copyright owner *or* a person deriving an interest by assignment being able to enforce such rights that he holds in his own name. The section provides:

36. (1) Subject to this section, the owner of any copyright, or any person or persons deriving any right, title or interest by assignment or grant in writing from the owner, may individually for himself or herself, as a party to the proceedings in his or her own name, protect and enforce any right that he or she holds, and, to the extent of that right, title and interest, is entitled to the remedies provided by this Act.

(2) Where proceedings referred to in subsection (1) are taken by a person other than the copyright owner, the copyright owner must be made a party to those proceedings, except

...

(c) in any other case, if the court is of the opinion that the interests of justice do not require the copyright owner to be a party.

[20] In my view, the reference to “any person...deriving any right, title or interest by assignment...from the owner, may individually for himself or herself, as a party...in his or her own name, protect and enforce any right that he or she holds” does not help CUC for two reasons. Firstly, the reference to “deriving any right, title or interest by assignment...from the owner” must mean a right, title or interest *in the copyright* pursuant to sections 13(4) and (5) of the Act which permits an assignment of interest in the copyright. Secondly, section 36(1) refers to a person who is not the copyright owner bringing an action to enforce his *own* rights and not the rights of the copyright holder, yet the March 2006 Agreement purports to grant a right to CUC to enforce the rights *only of CUI*. Section 36(2) which provides that if proceedings are taken by a person other than the copyright owner, the copyright owner must be made a party, in my view refers to proceedings taken by persons who have an interest by assignment *in the copyright*, but are not the owner of the entire copyright. As noted, since CUC does not have a right to reproduce copies and since it does not have a right to distribute in Ontario to the exclusion of CUI, CUC has no interest in the copyright. It has no standing to bring this action as plaintiff.

[21] I am reinforced in my view by the case law proffered by the defendants. In *Tele-Metropole Inc. v. Bishop* (1987), 18 C.P.R. (3d) 257 (F.C.A.) an agreement was entered into between the composer of a work (one “Bishop”) and CMRRA who was made responsible for administering the

right to reproduce his work, but who did not have its own right to reproduce the work, which read: “CMRRA shall have the right to take...all action...and to protect and enforce [Bishop’s] rights” in the work in Canada. The Federal Court of Appeal considered the effect of the predecessor to section 36(1) of the Act and asked itself whether CMRRA had capacity to sue the defendant who infringed Bishop’s copyright by making an unauthorized copy of the recording. The court held at p. 4, “For it to be able to sue, therefore CMRRA must have acquired from Bishop a right or interest in the work.” At p. 6 it concluded: “ The contract does not give it any portion of Bishop’s copyright. In my view, therefore, CMRRA did not have the capacity to bring an action under the Copyright Act...This is not an action in tort at common law...but an action governed by the Copyright Act.”

[22] In *Masterfile Corp. v. World Internett Corp.* (2001), 16 C.P.R. (4th) 139 (F.C.T.D.) the plaintiff was a stock image company that acquired rights to images from photographers and licensed such images to end users such as web designers. The plaintiff had different contracts with different photographers but all granted to the plaintiff a right to litigate over unauthorized use, for example: “Photographer grants Masterfile full and complete authority to...take such action as may be necessary...if there occurs...unauthorized use of Agency images by any third party.” There were no provisions for copyright assignment for litigation in some contracts and in others there was an agreement to assign copyright in the images in the pursuit of infringement claims, although no such executed assignment was made. The court concluded at p. 9 that notwithstanding such litigation clauses “Masterfile has neither an exclusive licence nor an assignment of copyright for the images at issue in this case” and as a result “Masterfile has no standing to prosecute this action.”

[23] Although these cases involve agency rather than a sole distributorship, they stand for the proposition that a person without an assignment of an interest in the copyright has no standing to sue for copyright infringement.

[24] With respect to the plaintiff herein bringing action for breach of its own distribution rights, it is my view that these are not rights actionable under the Copyright Act. In fact in *Mobilvision Technology Inc. v. Rushing Water Products Ltd.* (1984), 1 C.P.R. (3d) 385 (F.C.T.D.) the terms of agreement were not set out in the decision but the court concluded at p. 2 that “an ancillary right or a collateral interest to distribution...is not actionable under the Copyright Act.” In any event the March 2006 Agreement purports to grant CUC the right to bring action to enforce the rights of CUI, not any independent right of CUC.

[25] I therefore conclude that neither CUC nor CUO have in interest in the copyright in the films by assignment or otherwise and neither have standing to bring this action in their own name either to enforce the copyright interest of CUI or to enforce any contractual distribution rights they have may obtained from CUI. Therefore there is no tenable plea by them as set out in the proposed amended statement of claim and the motion to add the Ontario Companies must be dismissed.

SHOULD THE AMENDMENTS BE DENIED AS AN ABUSE OF PROCESS?

[26] If I am wrong, and if CUC and CUO have standing to sue as plaintiffs either because they are exclusive licensees or because they obtained an interest in the copyright by assignment such that they are entitled to bring this action under section 36(1) of the Act as “persons deriving any right,

title or interest by assignment or grant in writing from the owner” I must consider whether the motion should be denied because adding them as plaintiffs would constitute an abuse of process.

[27] Proposed amendments must comply with the rules of pleading and this includes compliance with rule 25.11(c), which provides that pleadings may be struck as “an abuse of the process of the court”: *Plante*, supra, at p.85. “No amendment should allowed if it could successfully be attacked under rule 25.11 or rule 21”: *1174538 Ontario Ltd. v. Barzel*, [2001] O.J. No. 580 (S.C.J.) at p. 6.

[28] In particular the court should refuse to add a party if it is shown to be an abuse of process. As stated in *Plante*, supra, at p. 87:

Addition of a party will not be permitted if it is shown to be an abuse of process. Abuse of process will exist where the addition of a party is for an improper purpose such as solely to obtain discovery from them, to put unfair pressure on the other side to settle, to harass the other party or for purely tactical reasons. *National Trust Co. v. Furbacher*, [1994] O.J. No. 2385 (Gen. Div.); *MacRae v. Lecompte* (1983), 143 D.L.R. (3d) 219, 32 C.P.C. 78 (Ont. H.C.J.).

[29] Most cases dealing with abuse of process are concerned with a plaintiff adding a defendant for the sole purpose of obtaining that person’s discovery or harassing the defendants into settlement. In my view, it should be no different if the plaintiff is adding another plaintiff for the purpose of avoiding security for costs, for instance by adding an unnecessary Ontario resident in order that a non-resident plaintiff might avoid security for costs on the basis that any liability for costs will be a joint obligation.

[30] In *Sydlo Inc. v. Mixing Equipment Co.*, [1986] O.J. No 2542 (H.C.J.) at p. 2, where an assignment of debt from a corporate plaintiff without assets was made to an individual while a security for costs motion was pending, the court set aside an order to continue in favour of the individual assignee as an abuse of process “as it will have the effect of defeating the motion for security for costs” because “the plaintiff is no longer a corporation.” In this case of course there can be no suggestion that the March 2005 Agreement was signed to defeat a motion for security since it pre-dated the issuance of the original statement of claim, however the defendants’ submission is that the addition of the Ontario Corporations as plaintiffs at this time was done to defeat security for costs.

[31] A short chronology is instructive. CUI is an American incorporated company with its principal place of business in New York. CUI had by assignment from the Russian Companies exclusive copyright in and exclusive right to reproduce and distribute the films in issue throughout the United States and Canada. The ten actions which are the subject of the motions before me, as well as other actions, were all commenced in Ontario in October 2005, all named CUI as the sole plaintiff and all sought similar relief against persons who copied, sold or rented films in which CUI had a copyright interest. There is no question that CUI, as copyright owner, had standing to bring the actions in Ontario to enforce its copyright.

[32] In the original actions CUI, as sole plaintiff, is referred to in the statements of claim as the “exclusive licensee and copyright holder” in Canada. The original statements of claim seek an injunction and damages suffered by CUI who “lost and will continue to lose substantial revenue from the sale of the copyrighted Subject works” and because of the defendants’ “misappropriation of protected trademarks” in the packaging. The proposed new plaintiffs CUC and CUO are not even mentioned in the original statements of claim.

[33] On February 21, 2006 and March 17, 2006 Master Egan ordered CUI to pay security for costs pursuant to motions brought by defendants in two of the actions currently before me.² In two other actions³ motions for security for costs were scheduled to be heard by me on June 23, 2006. In response to and just prior to the hearing of those motions the plaintiff brought cross-motions dated June 21, 2006 to amend the statements of claim to add CUC and CUO as plaintiffs returnable on the same date. Other security for costs motions were either pending or threatened and the plaintiff had indicated that it would be bringing motions to add the Ontario Companies in all actions. All motions were adjourned so that I could hear all pleading amendment motions at one time. This has resulted in the ten motions currently before me.

[34] The defendants in actions where no security for costs order has been made all intend to bring or proceed with their existing motions for security for costs once the pleadings are finalized.⁴

[35] Master Egan’s orders that CUI post security was based on rule 56.01(1)(a) that the plaintiff is ordinarily resident outside Ontario. Master Egan refused to accept the plaintiff’s impecuniosity because “there was no evidence about the ability of shareholders of the plaintiff to post security for costs.”⁵

[36] The defendants advance the proposition that given the timing of the motions to amend the statements of claim by adding the Ontario Companies as plaintiffs shortly after security for costs were ordered in two actions on the basis that a non-resident was the sole plaintiff and on the eve of the hearing of other motions for security, it is clear that the motivation for adding the resident plaintiffs is to avoid further orders for security. The solicitor for the plaintiff has indicated that if the amendments are allowed he will be moving to vary the orders for security for costs made by Master Egan. The defendants suggest this is further evidence of the plaintiff’s purpose in a moving to add resident plaintiffs.

[37] In the face of such allegations of improper purpose it is incumbent upon the plaintiff to explain why it wishes to add new plaintiffs and why they were not included in the original statement of claim. As stated by Master Clark in *876761 Ontario Inc. v. Maplewood Ravines Ltd.*, [2002] O.J. No. 2261, 22 C.P.C. (5th) 290 at p. 293:

² Actions 05-CV-297957PD2 and 05-CV-297955PD3.

³ Actions 05-CV-297953PD2 and 05-CV-298322PD3.

⁴ In two of those actions (05-CV-297964PD3 and 05-CV-297961PD3) Master Egan refused to order security for costs because a counterclaim was asserted arising out of the same circumstances as the claim. Those counterclaims have since been withdrawn and those defendants intend to bring fresh motions for security.

⁵ Master Egan’s decision in 05-CV-297955PD3 is reported at [2006] O.J. No. 2301 quoted at p. 4.

In my view, the material supporting this type of motion must state clearly and specifically why the plaintiff seeks to add the defendants, and why they were not added until after the claim was issued. The value of such evidence is the bona fides it brings to the motion by dispelling suspicions of ulterior motives, such as adding parties mainly for the purpose of obtaining discovery, or adding individuals in order to simply put pressure on defendant corporations or vice versa, and thereby gain an unjust advantage.

In *National Trust v. Furbacher*, [1994] O.J. No. 2385, Farley, J. dismissed the defendant's motion to amend their statement of defence and counterclaim, in part due to the absence of such an explanation in the supporting affidavit. He concluded that the court process was being abused in the circumstances.

[38] The defendants have not put in any responding affidavit. That is understandable. The plaintiff's real purpose in moving to add party plaintiffs at this time is entirely within the knowledge of the plaintiff. The defendants cannot know the plaintiff's motives. They can do no more than raise a reasonable inference, as they have done here, based on suspicious circumstances.

[39] The onus is on the plaintiff to explain. In its supporting affidavit, the plaintiff gives absolutely no reason why it seeks to add additional plaintiffs at this time or why the Ontario Companies (or at least CUO, the only company then in existence with any rights) were not named as plaintiffs in the original statements of claim. The plaintiff's affidavit, sworn by a junior law clerk in the office of plaintiff's solicitor, does little more than recite the various agreements among the plaintiff and the proposed plaintiffs and attach them as exhibits. The affidavit merely recites legal conclusions, namely that the Copyright Act requires copyright owners to be named as plaintiffs and that a party with an assignment of right of action may enforce any right held by that assignment.

[40] I note that section 36(1) of the Act creates two categories of plaintiffs who have rights to enforce their interests under the Act, the first being the owner of any copyright and the second being a person deriving rights from the owner. Section 36(2)(c) of the Act requires the first category of persons, the copyright owner, to be made a party to any action unless the court is of the opinion that the interests of the justice do not require it (the "Mandatory Parties"). The second category of persons "may" bring an action but are not required to be added as a party (the "Optional Parties").

[41] To put this into context, CUI has the exclusive licence and copyright throughout Canada and the United States. It was an appropriate party to enforce its copyright interests in Ontario both in October 2005 when the action was commenced and now. CUI was properly named as plaintiff. The plaintiff argues that the Russian Companies also are copyright owners and must be named as plaintiffs pursuant to section 36(2) of the Act unless the court orders otherwise.⁶ The same cannot be said of CUC and CUO who are at best Optional Parties. It was not necessary to name them as plaintiffs in October 2005 and it is not necessary now.

[42] Although COC did not gain its rights in Ontario until September 1, 2006 pursuant to the March 2006 Agreement (or possibly in June 2006 pursuant to the Share Purchase Agreement) and thus could not have been a plaintiff in October 2005 when the actions were commenced, CUO had purportedly been granted enforcement rights in Ontario as of the date of the June 2005 Agreement

⁶ I accept this proposition for purposes of this motion, with some reservations as set out in footnote 8.

and it could have been named as a party in the original statements of claim. The execution of the March 2006 and June 2006 Agreements, which gave rights to CUC during the course of this litigation and after the first security for costs orders, is in itself an additional suspicious circumstance.

[43] Even if the reference to the various agreements among the plaintiff and the proposed plaintiffs constitutes some evidence as to *how* the proposed plaintiffs may be proper parties, the affidavit is lacking in explanation as to *why* the plaintiff chooses to add them as additional plaintiffs when it is not mandatory that they be named, and *why* it chooses to add them now. There is no evidence why the proposed plaintiffs, or at least CUO, were not named in the original statements of claim. I would have expected, at a minimum, an affidavit from Ms. Kogan, the solicitor of record who drafted the original statements of claim, that provided an answer to these questions, even if it were no more than an admission of inadvertence or lack of knowledge. Ms. Kogan's silence in that regard is deafening.

[44] The one paragraph in the affidavit of the junior law clerk that gives a hint as to the motive for the amendments is set out in paragraph 13 which states: "The Fresh as Amended Statement of Claim for the Plaintiff include multiple Plaintiffs all of whom assert a joint claim where two of the Plaintiffs are resident within Ontario and carry out their business." There is no other meaning one could give to this sworn statement other than that the plaintiff wanted to add a resident plaintiff in order to resist security for costs.

[45] In the absence of any other explanation as to the purpose in adding the Ontario Companies as plaintiffs at this time and the absence of any explanation as to the plaintiff's failure to name CUO as a plaintiff in the original statement of claim, and in the face of the suspicious circumstances set out herein, I inescapably come to the conclusion that the plaintiff's purpose in seeking to add the Ontario Companies as plaintiffs is to avoid further orders for security for costs by having resident plaintiffs make a joint claim with that of the original non-resident plaintiff.⁷ In my view that is an improper purpose for adding parties and the motion to add the Ontario Companies will be denied on the further ground of abuse of process.

[46] There will be no prejudice to CUI, other than loss of a ground to resist security for costs, if the Ontario Companies are not added as parties, since CUI can fully protect its rights and recover damages by action in its own name pursuant to section 36(1) of the Act.

THE RUSSIAN COMPANIES

[47] I accept for purposes of this motion that the Russian Companies own copyright in the films and that pursuant to section 36(2)(c) of the Act, in proceedings taken by a person other than the

⁷ Whether the plaintiff would have been successful in avoiding security even if the Ontario Companies were added is not before me. It may be that the rights to be enforced by CUI and by the Ontario Companies are not joint, but rather distinct, claims. The plaintiff however clearly intended to make the argument that a non-resident plaintiff was making joint claims with resident plaintiffs.

copyright owner, the “copyright owner” must be made a party⁸ unless “the court is of the opinion that the interests of justice do not require the copyright owner to be a party.” The plaintiff invites me to consider this exception and opines that as a Master hearing a motion to add the Russian Companies as parties I have jurisdiction to refuse the motion if I am of the view that their addition as plaintiffs is not required in the interests as justice. The defendants do not resist this proposition as to my jurisdiction.

[48] In my view the interests of justice do not require that the Russian Companies be added as plaintiffs. There are a number of reasons for coming to that conclusion.

[49] Firstly, CUI 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 have no real interest in the action or the relief claimed.

[50] Secondly, the proposed amended statements of claim plead that the Russian Companies are named as parties pursuant to section 36(2) of the Act but are not participating pursuant to section 36(3) which reads:

(3) A copyright owner who is made a party to proceedings pursuant to subsection (2) is not liable for any costs unless the copyright owner takes part in the proceedings.

[51] Thirdly, none of the defences to the action relate to the copyright interest of the Russian Companies.

[52] 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.

[53] 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. This differs from *Entral Group International Inc. v. 1438762 Ontario Inc.*, [2005] O.J. No 2140 (S.C.J.) where the exclusive distributor (in that case with reproduction rights) was the sole plaintiff and opposed adding the Hong Kong copyright holders. Master Hawkins stayed the action until the copyright owners were added because it was uncertain whether the copyright owner would be bound by any adverse finding that there had been no copyright infringement. In this case however, CUI, the copyright owner is already a party.

⁸ The proceedings in fact have been taken by the copyright owner, CUI, within the meaning of section 36(2) and it may therefore not be necessary to add the Russian Companies as copyright owners under that section. I also query whether in fact the Russian Companies do own copyright in Ontario as a result of their assignment to CUI. The plaintiff however proposes they are copyright owners and that section 36(2) applies and the defendants do not argue to the contrary. As a result for purposes of this motion I assume section 36(2) applies to the Russian Companies.

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.

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

[55] 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.

FAILURE TO COMPLY WITH RULE 5.04(3)

[56] The plaintiff has not included the signed consent of any of the proposed added plaintiffs. Rule 5.04(3) provides:

(3) No person shall be added as a plaintiff or applicant unless the person's consent is filed.

[57] This is not in conflict with section 36(2) of the Act which requires that the copyright owner must be made a party. If the Russian Companies are not prepared to sign a written consent to be added as a party plaintiff, then rule 5.03(5) provides that a person required to be joined as a party "who does not consent to be joined as a plaintiff...shall be made a defendant." Section 36(2) refers to adding the copyright owner as a "party" and not necessarily a party plaintiff. Section 36(2) of course does not apply to the Ontario Companies. They must consent to be added as party plaintiffs.

[58] The failure to file consent would in itself be fatal to the plaintiff's motion, which could be dismissed on that ground alone. However, if the amendments were otherwise proper, I would not have dismissed the motion on this ground alone, but I would have adjourned final disposition of the motion until it could be ascertained whether any or all of the proposed plaintiffs are willing to provide their written consent.

OTHER OBJECTIONS TO THE AMENDED PLEADING

[59] The defendants raise other issues about particular pleas in the fresh as amended statement of claim. These pleas had also been advanced in the original statement of claim although the wording has been changed, in some case significantly. This of course is a motion to amend the statement of claim. There is no motion by the defendants to strike portions of the original pleadings. Therefore the context of the attack is that new parties are being added and as the added plaintiffs are making the impugned claims, the defendants have a right to determine if the pleas by the added parties are tenable. Since I have determined to dismiss the motion to add plaintiffs and to amend the statement of claim, the attack on a portion of the amended pleadings is moot. However, the issues have been argued and must be addressed in the event I am wrong with respect to adding the additional plaintiffs. Furthermore, these reasons may be of benefit if the plaintiff seeks to amend the original statements of claim without the added plaintiffs in order to "clean up" the pleadings or if the defendants move against the original pleadings. I state no opinion however whether the paragraphs in the original statements of claim that are similar to the impugned paragraphs in the proposed amended statement of claim comply with the rules of pleading as those issues are not before me.

(a) Plea of Similar Facts

[60] Both the plaintiff and the defendants proceeded on the basis that paragraph 37 of the proposed fresh as amended statement of claim was a plea of similar facts and the argument was focussed on whether the plea met the test of allowing similar facts to be pleaded. That test is concerned with weighing the added complexity of the plea against its probative value, commonality of facts and unfairness. In my view however paragraph 37 is not a plea of similar facts and the test need not be applied. Proposed paragraph 37 reads:

The Defendants engaged in a continuing pattern of copyright infringement in which they wilfully reproduced multiple copies of the Close-Up Works for sale or distribution employing similar technical copying of DVD and/or VHS formatted copyrighted works.

[61] To constitute similar facts there must be a plea that past or other conduct of the defendants is sufficiently similar to the conduct that is the subject matter of the action, such that it has probative value to an issue in the action. For example, if the plaintiffs had pled that the defendants engaged in this conduct with films of other copyright owners or that it was a general pattern of the defendants, then that would constitute a plea of similar facts to which the test must be applied. In this case the “continuing pattern” only involves the “Close-Up Works” and it is the sale and distribution of those very works which are the subject matter of the action.

[62] In the motions for security for costs before Master Egan, the defendants also moved to strike allegations of similar facts from the original statement of claim. The pleading in the proposed amended statement of claim is very different from that that faced by Master Egan. In the original plea in those actions the plaintiff had alleged in paragraph 31: “The Defendants are professional pirates, whose entire business consists solely of wilful misappropriation and infringement for profit of copyrighted works, of which a significant portion involves the copyrighted Subject works of this case.” In paragraph 32 the plaintiff pleaded proof could be found in the fact that “pirated editions of works copyrighted to major American studios” were contained in defendants’ stores. Master Egan properly concluded: “The thrust of paragraphs 31 and 32 is to plead similar facts, that is, that the defendants’ entire business, not just that involving the subject works described in the statement of claim, consists of infringing copyrighted works.”⁹ As indicated, in the proposed amendments the plaintiffs have restricted their plea to defendants’ activities involving only the subject works.

[63] In my view therefore paragraph 37 of the proposed fresh as amended statement of claim is not a plea of similar facts and would not be struck on that basis.

(b) Lack of Particularity

[64] On the other hand, the defendants also argue that the pleadings lack sufficient particulars to which they are entitled especially in a copyright action. In particular the proposed pleading does not state which films were allegedly reproduced and sold for profit. This is the real problem with paragraph 37 as well as paragraphs 38 and 40 which allege sale of the films in improper packaging. Although in paragraph 37 the plaintiff adds that “the extent of the Defendants’ infringing activities

⁹ *Close-Up International Ltd. Yakubovsky*, [2006] O.J. No. 2301 at paragraph 53.

is known to the Defendants and not the Plaintiffs” the plaintiff must still provide sufficient particulars that are within its knowledge as to the films unlawfully sold and the specific trademark infringed so as to sufficiently define the issues and so as to allow the defendants to marshal their defences.

[65] As stated in *Radulescu v. Toronto District School Board*, [2004] O.J. No 5613 (S.C.J.) at p. 6: “The defendant is entitled to specific allegations in order to craft specific defences and in a technical area such as intellectual property, defences may hinge on the very specific information and nuances.”

[66] If I had otherwise allowed the plaintiff to amend the statement of claim, I would have struck paragraph 37, but with leave to amend in order to provide the necessary particulars.

(c) No Tenable Plea Against Directors Personally

[67] Finally, the defendants claim that there are no specific actionable allegations pleaded against the individual defendants, who are directors of the infringing corporate defendants, and as such no tenable plea against them. For example, paragraph 35 in this action pleads that the defendant corporations sell, rent and distribute the Close-Up Works without licence from CUI. Paragraph 36 then pleads that the individual defendants are directors, officers or owners of the defendant corporation “and as such were in control...of the corporations’ activities at the material time.”

[68] An officer or director of a corporation cannot be found personally liable for acts of the corporation in the absence of findings of fraud, deceit, dishonesty or want of authority or unless their actions are themselves tortious or the directors exhibit a separate identity from that of the corporation so as to make the conduct complained of their own: *Scotia Mcleod Inc. v. Peoples Jewellers Ltd.* (1995), 26 O.R. (3d) 481 (C.A.) at p. 490-491. Such tortious act may be committed by the director personally, even if acting in the course of duty, provided it is properly pleaded: *ADGA Systems International Ltd. v. Valcom Ltd.*, [1999] O.J. No. 27 (C.A.) at p. 9. It does not constitute a civil wrong to simply manage or be the controlling mind of a corporation that commits a tort. If the plaintiff wishes to plea that the director personally committed a tort, sufficient particulars of what the director personally did or failed to do must be pleaded so as to lead to that conclusion, failing which the plea against the director may be struck as not raising a tenable cause of action: *Henry v. 1213962 Ontario Ltd.*, [2005] O.J. No. 2132 (S.C.J.).

[69] The plaintiff refers to *Mentmore Manufacturing Co. v. National Merchandise Manufacturing Co.* (1978), 89 D.L.R. (3d) 195 (F.C.A.) at paragraphs 27 and 28, which holds that a director can be personally liable if he “acts wilfully and knowingly, or uses the corporation as an instrument to carry out his deliberate infringement.” The director must be wilfully pursuing a “course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it.” The plaintiff however must plead the facts as against the individual defendants that could lead to such a conclusion.

[70] In the proposed amended statement of claim, following the plea in paragraph 35 that the corporations sold and distributed the films and in paragraph 36 that the individuals were the directors or officers in control of the corporation's activities, paragraphs 37, 38 and 40 allege that the defendants (plural) committed acts of copyright and trade-mark infringement including reproducing, selling, renting and displaying copies of films or packaging. Paragraph 41 pleads that the defendants (plural) had knowledge of the infringement and each defendant made a profit thereby and paragraph 43 pleads that the activities of the defendants (plural) have caused harm to the plaintiffs. Strangely other paragraphs, such as 39 and 44 refer only to a singular unidentified defendant, although this may be a typographical error. There are no allegations specific to the individual directors.

[71] Although the plaintiff's solicitor suggests that the reference to actions of the defendants in the plural is a "global" allegation of infringing activities and that this implies a plea that the corporations and the individuals each committed separate acts of infringement, in my view such global plea, without more, is insufficient. Without some plea as to the specific acts of the individual directors that could constitute separate tortious conduct or that could amount to wilful conduct using the instrumentality of the corporation, the plea against those individuals is untenable.

[72] If it were necessary to determine whether the claim against the individual directors at the suit of the added plaintiffs should be struck, I would have struck the pleading with leave to amend to specify the specific facts to support the claims against them personally. As I have not allowed the motion to add the plaintiffs or to amend the statement of claim, it is not necessary to so order.

AMENDING THE NAME OF THE PLAINTIFF CUI AND ONE DEFENDANT

[73] The plaintiff states in argument that CUI was incorrectly named as Close Up International Ltd. in each action whereas its correct name is "Close Up International Inc." There is however no evidence of such reason for seeking the change of name and no evidence as to the correct name, such as an incorporating document. The agreements produced in evidence refer to two different names, Close-Up International, Inc. and Close-Up International Inc., neither of which exactly match the proposed name. Furthermore, the proposed amended statement of claim continues to list Close Up International Ltd. in the style of cause. The amendment is denied based on lack of an evidentiary foundation, without prejudice to renew such motion on proper evidence and with a corrected draft amended pleading.

[74] In one action, 05-CV-297957PD2, the motion to add or correct the name of a defendant must also be dismissed based on lack of any explanation or evidentiary foundation, without prejudice to renew such motion on proper evidence.

ORDER

[75] The motions in each of the ten actions before me for leave to amend the statement of claim, add party plaintiffs and correct the name of the plaintiff and in 05-CV-297957PD2 to add a defendant are dismissed.

[76] Unless the parties are able to agree on costs, I would be prepared to receive brief written submissions from the defendants, separately or jointly, within seven days and from the plaintiff within seven days after receipt thereof. Any party seeking costs shall include a Costs Outline (Form 57B) and supporting dockets.

Master R. Dash

DATE: September 27, 2006