

Federal Court



Cour fédérale

Date: 20170301

Docket: T-245-16

Citation: 2017 FC 246

Ottawa, Ontario, March 1, 2017

PRESENT: The Honourable Mr. Justice Campbell

BETWEEN:

NINTENDO OF AMERICA INC.

Applicant

and

**JERAMIE DOUGLAS KING AND
GO CYBER SHOPPING (2005) LTD.**

Respondents

JUDGMENT AND REASONS

[1] In 2012, Parliament amended the *Copyright Act*, RSC 1985, c C-42 (the *Act*) to add prohibitions against circumventing technological protection measures (TPMs) and trafficking in circumvention devices. In doing so, Parliament explicitly recognized the importance of TPMs for protecting copyrighted works, particularly in the video game industry. The present Application engages novel issues arising from this important legislation.

[2] By the Application as filed on February 9, 2016, the Applicant, Nintendo of America Inc., seeks, among other things, a declaration that the individual and corporate Respondents have circumvented, offered services to circumvent, and trafficked in devices which circumvent the Applicant's TPMs contrary to s. 41.1(1)(a)-(c) of the *Act*, and that the Respondents have infringed the Applicant's copyright in certain works contrary to s. 27(2) of the *Act*.

[3] Upon a finding that the Respondents are jointly and severally liable for circumvention and/or infringement under the *Act*, the Applicant seeks statutory damages under s. 38.1 of the *Act*, its costs, as well as an injunction restraining the Respondents from further infringement and circumvention.

[4] The Applicant also sought a declaration of infringement under ss. 19 and 20 of the *Trade-marks Act*, RSC 1985, c T-13. However, at the hearing of the present Application, the Applicant discontinued these claims.

[5] Accordingly, the issues for determination on the Application as filed are whether the Respondents are liable under the asserted provisions of the *Act*, and, if so, the appropriate remedies.

I. The Process Leading to the Present Determination

[6] The Application came on for hearing before me on October 18, 2016. On that date, Counsel for Applicant presented a highly detailed argument in support of the Application as filed, but, due to insufficiency of time, the matter was adjourned to November 22, 2016 for Counsel for the Respondents to present reply argument. On the continuation date, only Counsel for the Applicant appeared to advise that the Applicant and the individual Respondent, Jeramie

Douglas King (King), had reached a settlement agreement on all issues, including liability and quantum of damages, which will be the subject of a separate consent order.

[7] Counsel for the Applicant stated that, regardless of the settlement, the Applicant maintains all its claims against the corporate Respondent, Go Cyber Shopping (2005) Ltd. Counsel for the Applicant also advised that Counsel for the corporate Respondent would not be making a personal appearance to make oral argument in defence of the continuing claim, but would rely solely on written representations first filed in response to the Application.

[8] As argued by Counsel for the Applicant, it is trite law that the party asserting a cause of action bears the burden of proving each required element of the cause of action, while the party raising an affirmative defence bears the burden of proving all the elements of the defence. A party may choose not to lead evidence on any issue and elect to argue that the cause of action has not been proven on a balance of probabilities. However, an adverse inference may be drawn from a party's failure to lead evidence that was in its power to produce (*R v Jolivet*, 2000 SCC 29 at paras 24-25, [2000] 1 SCR 751).

[9] To prove the claims made in the present Application, the Applicant tendered extensive affidavit evidence from three expert witnesses. However, in defence of the Application the Respondents filed no evidence and did not cross-examine the Applicant's witnesses. Instead, as addressed in the reasons below, the Respondents merely advanced arguments, unsupported by evidence, in what I find to be a failed attempt to establish that the Applicant has failed to prove its claims. I agree with Counsel for the Applicant that the Applicant's evidence stands uncontradicted and unchallenged, and in my opinion, is unassailable in fully proving the claims made.

[10] In response to the advice provided by Counsel for the Applicant on the continuation date, I stated my opinion that, on the basis of the evidence and arguments as filed by both sides to the litigation, and including the oral argument presented by Counsel for the Applicant on the first day of the hearing of the Application, the Applicant is wholly successful in its claim against the corporate Respondent.

[11] As to the nature of the decision to be rendered in conclusion of the litigation, Counsel for the Applicant stated the Applicant's interest in developing the law with respect to TPMs, their circumvention, statutory damages, and enforcement measures to the benefit of the industry concerned in Canada and globally. Given the high precedential value of this expected outcome, at my request, Counsel for the Applicant agreed to supply a final consolidated written argument stating the terms that the Applicant would prefer to be the substance of the final determination of the litigation, to be served and filed on Counsel for the corporate Respondent to allow a potential reply.

[12] The argument was prepared, served, and filed, and by letter dated December 19, 2016, Counsel for the corporate Respondent replied "kindly be advised that the Respondent will not be filing additional representations...".

[13] In the result, to fairly and appropriately acknowledge the precise, clear, well supported, and effectively uncontested final argument prepared by Counsel for the Applicant, with which I fully agree, I find that the Applicant is entitled to have the final argument, as stated below, as my reasons for decision in the present litigation.

II. The Claim Against the Corporate Respondent (Respondent)

A. *The Parties*

[14] The Applicant, Nintendo of America Inc., is a famous video game company. It sells and distributes popular and well-known video games and video game consoles in Canada. The popularity and success of its video games are a result of substantial innovation, creativity, and financial investment into product development, intellectual property, and marketing. Each of the Applicant's video games can take years and millions of dollars to develop (First Affidavit of Dylan Rhoads, "Rhoads 1", Applicant's Record, pp. 82-83).

[15] The Respondent, Go Cyber Shopping (2005) Ltd., is a registered Ontario corporation. It operates a retail location in Waterloo, Ontario and several commercial websites including www.gocybershopping.com and www.gocybershop.ca. The Respondent also appears to carry on business under the name "Modchip Central Ltd." (which is neither a registered corporation nor business name) through the same retail location and through the website www.modchipcentral.com (Affidavit of Robert Hunter, "Hunter", Applicant's Record, pp. 1088-1091).

[16] King is the sole director and officer of the corporate Respondent (Hunter, Applicant's Record, pp. 1111-1113).

B. *The Applicant's video game products*

[17] The Applicant sells video game consoles in Canada. At issue in this Application are the handheld video game consoles known as the Nintendo DS and 3DS, and the Wii home video game console.

[18] The Applicant also sells hundreds of video games for its consoles in Canada. These video games are sold as game cards (in the case of DS and 3DS games) and discs (in the case of Wii games). Purchasers of genuine Nintendo video games can play these games on the appropriate Nintendo console by inserting the game card or disc into the corresponding console. The Applicant does not and has never authorized downloading of its games onto devices that mimic its game cards or discs and which circumvent its TPMs (Rhoads 1, Applicant's Record, p. 83).

C. *The Applicant's copyrights*

[19] There are two types of copyrighted works at issue in this Application: computer code and data used by the Applicant as part of its TPMs ("Header Data") and the video games developed for the Applicant's video game consoles ("Nintendo Games").

(1) Copyright in Header Data

[20] The Header Data consist of three works in which the Applicant has registered copyright:

Reg. No.	Title	Short Title
1,051,042	NINTENDO DS BOOT CODE (a.k.a. NINTENDO DS HEADER CODE)	"DS Header Data"
1,094,948	NINTENDO 3DS STARTUP SEQUENCE	"3DS Header Data"
1,110,536	GAME BOY ADVANCE BOOT CODE WITH NINTENDO LOGO DATA FILE	"Nintendo Logo Data File"

[21] Each genuine game card sold by the Applicant contains two of the Header Data works. Authorized DS game cards each contain a copy of the DS Header Data and the Nintendo Logo Data File. Authorized 3DS game cards each contain a copy of the 3DS Header Data and the Nintendo Logo Data File.

[22] The Header Data works serve two relevant functions for the purpose of this Application.

[23] First, the Header Data contains code that represents the Applicant's logos, which are used by the Nintendo DS and 3DS consoles to display the logos on the screen when the device is turned on with a genuine game card inserted.

[24] Second, the Header Data is used by the Nintendo DS and 3DS consoles as part of the Applicant's TPM system. In particular, the Header Data must be present on an inserted game card (whether genuine or not) in order for the Nintendo DS or 3DS console to play a video game (Rhoads 1, Applicant's Record, pp. 82-89).

(2) Copyright in Nintendo Games

[25] The Applicant also owns copyright in 585 video game works. Copyrights in 217 of the Nintendo Games are registered in Canada. These video game works include, for example, the *New Super Mario Bros.* and *Pokemon X* (Rhoads 1, Applicant's Record, p. 98; Rhoads 2, Applicant's Record, pp. 920-921).

[26] Copyrights in the remaining 368 Nintendo Games are not registered in Canada but are registered in the United States. By virtue of the *Berne Convention for the Protection of Literary and Artistic Works* (1886), 828 UNTS 221 and s. 5 of the *Act*, these copyrighted works are also subject to copyright protection in Canada (Rhoads 1, Applicant's Record, pp. 98, 359-363).

[27] The Respondent does not challenge the subsistence or ownership by the Applicant of the asserted copyrights.

D. *The Applicant's technological protection measures*

[28] The popularity of the Applicant's video game systems have made it a target of intellectual property "pirates" who benefit from the Applicant's investments by making unauthorized copies of its video games or by creating means to enable users to play such unauthorized copies of its video games on its consoles (Rhoads 1, Applicant's Record, p. 83).

[29] To prevent or deter these activities, the Applicant employs measures on its video game systems to protect and control access to its copyrighted works. The Applicant's measures prevent users from playing unauthorized copies of video games and from installing unauthorized software, including counterfeit games and software, on its consoles (Rhoads 1, Applicant's Record, p. 84).

[30] On the Nintendo DS and 3DS consoles, the Applicant uses at least three distinct measures to control access to its copyrighted works (Rhoads 1, Applicant's Record, pp. 84-94):

- a. **Physical Configuration:** the Applicant's DS and 3DS game cards utilize a specific shape, size, and arrangement of electrical connections designed specifically for use with each respective console;
- b. **Boot up Security Checks:** the Applicant's DS and 3DS game cards contain the copyrighted Header Data described above, that the console checks to confirm are present and identical to reference copies stored on the console—failure to pass the security check prevents users from accessing and playing any Nintendo Game stored on the game card; and

- c. **Encryption and Scrambling:** the Applicant's DS and 3DS game cards and DS and 3DS consoles contain technology to encrypt and scramble communications between the console and game card.

[31] On the Wii console, the Applicant uses at least two distinct measures to control access to its copyrighted works (Rhoads 2, Applicant's Record, pp. 921-923):

- a. **Format TPM:** a proprietary unique data format designed to be used only on Wii discs; and
- b. **Wii Copy Protection Code:** a code on Wii game discs which cannot be copied using commercially available tools and which must be present in order for users to access a Nintendo Game.

E. *The Respondent's activities and devices*

[32] Since at least 2013, the Respondent has advertised and offered for sale, either through its websites or at its retail store, certain devices which the Applicant contends are designed to circumvent TPMs employed on the Applicant's Nintendo DS, 3DS, and Wii gaming consoles (Hunter, Applicant's Record, pp. 1090-1096).

[33] The Applicant uses the term "Game Copiers" to refer to such devices. The Applicant takes issue with the following models of Game Copiers sold by the Respondent:

- a. R4i 3DS
- b. R4 Revolution R4DS
- c. R4 Gold
- d. SuperCard DSTWO
- e. Sky3DS

- f. Gateway 3DS
- g. Acekard2i
- h. CycloDS iEvolution
- i. DSTTi
- j. Edge

[34] A user in possession of a Game Copier can use it to play unauthorized copies of Nintendo DS or 3DS video games in the following manner (Rhoads 1, Applicant's Record, p. 93):

- a. a user downloads an illegal copy of a DS or 3DS game from the internet in a computer file format commonly known as "ROMs";
- b. the user saves the ROM onto a memory card;
- c. the user inserts the memory card into the Game Copier;
- d. the Game Copier is inserted into the game card slot in the DS or 3DS console;
- e. when the Nintendo DS or 3DS is switched on, the Game Copier mimics a genuine game card (using copies of the Header Data and encryption/scrambling circuitry) and enables the DS or 3DS console to access the illegally copied ROM on the memory card and play the pirated copy of the Nintendo Game.

[35] The Respondent also offers for sale certain devices, referred to as "mod chips", which the Applicant contends are designed to circumvent TPMs employed on the Wii console.

[36] Mod chips generally operate by modifying the firmware of the Wii console's disc drive or by disabling certain security routines. Mod chips are usually installed as an after-market internal component on a Wii console. Installation may require disassembling the console and

removing components. Mod chips may also be sold in kits along with other components such as hard drives. (Rhoads 2, Applicant's Record, p. 922-923).

[37] Mod chips allow users to play unauthorized copies of Wii video games, such as pirated copies downloaded from the internet. For example, users may download unauthorized copies of video games from the internet onto hard drives. When these hard drives are connected to a "modded" Wii console, the mod chip allows the user to access the pirated video games without owning a genuine Wii game disc (Rhoads 2, Applicant's Record, 923-925).

[38] The Applicant takes issue with the following models of mod chips, kits, and related tools sold by the Respondent:

- a. Wiikey 2
- b. Wode Jukebox v2.0
- c. Wiikey Fusion
- d. DriveKey Wii Modchip
- e. Wasabi DX Wii Modchip
- f. Solderless Wiikey2
- g. Wasabi Zero Wii Modchip
- h. Premodded D2C/D2E drive
- i. D2Pro SPI Flash Quicksolder
- j. DriveKey Programmer
- k. Infectus JTAG/Argon Programmer

[39] In addition to selling mod chips, the Respondent also offers mod chip installation services online and at its retail store, whereby a customer may drop off a Wii console to be "modded"

(i.e., installed) with a mod chip (Affidavit of Gavin Phillips, Applicant's Record, pp. 1075-1077).

F. *The Respondent's websites and social media*

[40] The Respondent actively promotes its activities through social media. These include product announcements, discussions on social media regarding the status of new product shipments, and taking pre-orders for next generation devices (Hunter, Applicant's Record, pp. 1191-1199).

[41] On its websites, the Respondent provides various descriptions of its products. For example, it describes the "Sky3DS" as a device that can "play 3DS ROMs on ALL 3DS versions [...] the Sky3DS card works and plays 3DS backups, and like a genuine game!" (Hunter, Applicant's Record, pp. 1187).

[42] The Respondent also provides an "FAQ" for the Sky3DS, providing a "compatible game list", instructions on how to "build" Header Data, and mentions examples of the Applicant's Nintendo Games such as Animal Crossing and Pokemon X and Y (Hunter, Applicant's Record, pp. 1187-1189).

G. *Other facts regarding the Respondent*

[43] In its written submissions, the Respondent asserts certain facts, such as offering other legitimate services and the relatively small size of its business, in support of certain affirmative defences. However, since the Respondent has adduced no evidence in support of these assertions, they are unsubstantiated and do nothing to satisfy the Respondent's burden on its affirmative defences.

III. Issues

[44] During the course of submissions, the issues have been narrowed. The remaining issues for determination are:

- a. Has the Respondent infringed the Applicant's copyrights contrary to s. 27(2) of the *Act*?
- b. Has the Respondent contravened the anti-circumvention provisions under s. 41.1(1) of the *Act*?
- c. If so, what remedies are appropriate?

IV. Analysis

A. *S. 27(2): Secondary copyright infringement*

[45] Section 27 of the *Act* defines copyright infringement as follows:

Infringement generally

27 (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

Secondary infringement

(2) It is an infringement of copyright for any person to

Règle générale

27 (1) Constitue une violation du droit d'auteur l'accomplissement, sans le consentement du titulaire de ce droit, d'un acte qu'en vertu de la présente loi seul ce titulaire a la faculté d'accomplir.

Violation à une étape ultérieure

(2) Constitue une violation du droit d'auteur l'accomplissement de tout acte ci-après en ce qui a trait à l'exemplaire d'une oeuvre, d'une fixation d'une prestation, d'un enregistrement sonore ou d'une fixation d'un signal de communication alors que la personne qui accomplit l'acte sait ou devrait savoir que la production de l'exemplaire

	constitue une violation de ce droit, ou en constituerait une si l'exemplaire avait été produit au Canada par la personne qui l'a produit :
(a) sell or rent out,	a) la vente ou la location;
(b) distribute to such an extent as to affect prejudicially the owner of the copyright,	b) la mise en circulation de façon à porter préjudice au titulaire du droit d'auteur;
(c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,	c) la mise en circulation, la mise ou l'offre en vente ou en location, ou l'exposition en public, dans un but commercial;
(d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or	d) la possession en vue de l'un ou l'autre des actes visés aux alinéas a) à c);
(e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),	e) l'importation au Canada en vue de l'un ou l'autre des actes visés aux alinéas a) à c)
a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.	

[46] The Supreme Court in *CCH Canadian Ltd v Law Society of Upper Canada*, 2004 SCC 13

[*CCH*] at paragraph 81, [2004] 1 SCR 339, set out the following three-part test for establishing secondary infringement: (1) the copy must be the product of primary infringement; (2) the secondary infringer must have known or should have known that he or she is dealing with a

product of infringement; and (3) the secondary dealing must be established within one of the enumerated acts in s. 27(2).

[47] The Applicant contends that the Respondent infringes its copyright in the three Header Data works contrary to s. 27(2), in that: (1) unauthorized copies of the works are either contained on Game Copiers when they are sold or are obtained by following the instructions provided by the Respondent; (2) the Respondent knew, ought to have known, or was wilfully blind to the fact that the Game Copiers contained such works; and (3) the Respondent sold, distributed, offered for sale, and possessed the Game Copiers for the purpose of those activities.

[48] In support of this cause of action, the Applicant adduced evidence of testing for three models of Game Copiers purchased from the Respondent's online store (Rhoads 1, Applicant's Record, pp. 95-97).

[49] In its defence, the Respondent contends that the impugned devices are "fundamentally blank discs". Nonetheless, the Respondent admits infringement of one of the three Header Data works, namely, the DS Header Data. However, the Respondent denies infringing the other two works, namely, the Nintendo Logo Data File and the 3DS Header Data (Respondents' Memorandum of Fact and Law, paras. 39-45).

[50] With respect to the Nintendo Logo Data File, the Respondent asserts that it does not infringe because it does not sell any devices for use with the Game Boy Advance System (Respondents' Memorandum of Fact and Law, para. 45).

[51] This implies that the Nintendo Logo Data File is only used on devices sold for the Game Boy Advance System. However, that is not supported by the evidence. The evidence clearly

establishes that an unauthorized copy of the Nintendo Logo Data File is present on the devices sold by the Respondent for use on DS consoles (Rhoads 1, Applicant's Record, pp. 85, 95). This satisfies the first element of the test for secondary infringement.

[52] The second element of the secondary infringement test may be inferred from the Respondent's admission of infringement in respect of the DS Header Data. Given that the Respondent admits knowing that its Game Copiers contain unauthorized copies of the DS Header Data, it is reasonable to infer that it knows, or ought to know, that its Game Copiers similarly contain unauthorized copies of the Nintendo Logo Data File.

[53] As for the third element, there is no dispute that the Respondent sells Game Copiers.

[54] Accordingly, the Respondent also infringes copyright in the Nintendo Logo Data File contrary to s. 27(2).

[55] With respect to the 3DS Header Data, the Respondent asserts that the work is not present on the Sky3DS device when it is sold. The Applicant does not assert otherwise. Indeed, the evidence establishes that a "template file" containing the 3DS Header Data work must be downloaded from a third party website to provide the Sky3DS device with its functionality (Rhoads 1, Applicant's Record, p. 97).

[56] Nonetheless, the evidence also shows that the third party website for downloading the 3DS Header Data is listed on the packaging of the Sky3DS device sold by the Respondent. Moreover, the Respondent's website directs users to instructions on how to obtain the file containing the copyrighted 3DS Header Data work (Applicant's Record, pp. 97, 1186-1188).

[57] This is sufficient to establish the existence of primary infringement. Subsection 3(1) of the *Act* gives the copyright owner “the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever [...] and to authorize any such acts.” In *Apple Computer Inc v Mackintosh Computers Ltd* (1986), 10 CPR (3d) 1 (FCTD) [*Apple FC*], aff’d (1987), 18 CPR (3d) 129 (FCA), aff’d [1990] 2 SCR 209, this Court held at p. 46:

Insofar as copyright infringement is concerned a person infringes by virtue of subsection 17(1) [now s. 27] and section 3, if they “authorize” or purport to authorize the doing of any act which is reserved to the owner of the copyright. “Authorize” has been defined by the jurisprudence as meaning “sanction, approve, and countenance” [*Falcon v. Famous Players Film Co.*, [1926] 2 K.B. 474 at p. 491].

[58] Thus, the Respondent’s authorization of infringing acts by providing its customers with instructions on how to copy the 3DS Header Data is sufficient to meet the first element of the secondary infringement test.

[59] Further, by authorizing the infringing acts, it may be inferred that the Respondent had actual or constructive knowledge of the infringement. Alternatively, the Respondent had notice of such facts that would have led a reasonable person to think that a breach of copyright was being committed, which is sufficient to establish the second element of secondary infringement (*Apple FC* at pp. 47-48).

[60] The Respondent does not dispute offering for sale and selling the Sky3DS device.

[61] Accordingly, the Respondent has also infringed the Applicant’s copyright in the 3DS Header Data work contrary to s. 27(2) of the *Act*.

B. S. 41.1(1): Circumvention of Technological Protection Measures

[62] The Applicant relies on the provisions prohibiting circumvention of TPMs under ss. 41 and 41.1 of the *Act*.

[63] Parliament introduced these provisions into the *Act* in 2012, under the *Copyright Modernization Act*, SC 2012, c 20. In over four years since their enactment, this Court has yet to consider and apply these provisions. Under the circumstances, a brief summary of the legislative background is warranted.

[64] The Summary section of the *Copyright Modernization Act* provides that:

This enactment amends the <i>Copyright Act</i> to	Le texte modifie la <i>Loi sur le droit d’auteur</i> pour :
(a) update the rights and protections of copyright owners to better address the challenges and opportunities of the Internet, so as to be in line with international standards; [...]	a) mettre à jour les droits et les mesures de protection dont bénéficient les titulaires du droit d’auteur, en conformité avec les normes internationales, afin de mieux tenir compte des défis et des possibilités créés par Internet; [...]
(c) permit businesses, educators and libraries to make greater use of copyright material in digital form; [...]	c) permettre aux entreprises, aux enseignants et aux bibliothèques de faire un plus grand usage de matériel protégé par le droit d’auteur sous forme numérique; [...]
(g) ensure that it remains technologically neutral; [...].	g) éliminer la spécificité technologique des dispositions de la loi; [...].

[65] Parliament evidently considered TPMs to be an important tool to achieve its stated goals.

The Preamble of the *Copyright Modernization Act* states:

Whereas the Copyright Act is an important marketplace framework law and cultural policy instrument that, through clear, predictable and fair rules, supports creativity and innovation and affects many sectors of the knowledge economy;

Whereas advancements in and convergence of the information and communications technologies that link communities around the world present opportunities and challenges that are global in scope for the creation and use of copyright works or other subject-matter;

Whereas in the current digital era copyright protection is enhanced when countries adopt coordinated approaches, based on internationally recognized norms;

Attendu :

que la Loi sur le droit d'auteur est une loi-cadre importante du marché et un instrument indispensable de la politique culturelle qui, au moyen de règles claires, prévisibles et équitables, favorise la créativité et l'innovation et touche de nombreux secteurs de l'économie du savoir;

que le développement et la convergence des technologies de l'information et des communications qui relient les collectivités du monde entier présentent des possibilités et des défis qui ont une portée mondiale pour la création et l'utilisation des oeuvres ou autres objets du droit d'auteur protégés;

que la protection du droit d'auteur, à l'ère numérique actuelle, est renforcée lorsque les pays adoptent des approches coordonnées, fondées sur des normes reconnues à l'échelle internationale;

Whereas those norms are reflected in the World Intellectual Property Organization Copyright Treaty and the World Intellectual Property Organization Performances and Phonograms Treaty, adopted in Geneva in 1996;

que ces normes sont incluses dans le Traité de l'Organisation mondiale de la propriété intellectuelle sur le droit d'auteur et dans le Traité de l'Organisation mondiale de la propriété intellectuelle sur les interprétations et exécutions et les phonogrammes, adoptés à Genève en 1996;

Whereas those norms are not wholly reflected in the *Copyright Act*;

que ces normes ne se trouvent pas toutes dans la *Loi sur le droit d'auteur*;

Whereas the exclusive rights in the *Copyright Act* provide rights holders with recognition, remuneration and the ability to assert their rights, and some limitations on those rights exist to further enhance users' access to copyright works or other subject-matter;

que les droits exclusifs prévus par la *Loi sur le droit d'auteur* permettent à ceux qui en bénéficient d'obtenir une reconnaissance et une rémunération et leur donnent la faculté d'exercer leurs droits et que les restrictions relatives à ceux-ci servent à faciliter aux utilisateurs l'accès aux oeuvres ou autres objets du droit d'auteur protégés;

Whereas the Government of Canada is committed to enhancing the protection of copyright works or other subject-matter, including through the recognition of technological protection measures, in a manner that promotes culture and innovation, competition and investment in the Canadian economy;

que le gouvernement du Canada s'engage à améliorer la protection des oeuvres ou autres objets du droit d'auteur, notamment par la reconnaissance de mesures techniques de protection, d'une façon qui favorise la culture ainsi que l'innovation, la concurrence et l'investissement dans l'économie canadienne;

And whereas Canada's ability to participate in a knowledge economy driven by innovation and network connectivity is fostered by encouraging the use of digital technologies for research and education; [...].

[Emphasis added.]

que le Canada accroîtra sa capacité de participer à une économie du savoir axée sur l'innovation et la connectivité si l'on favorise l'utilisation des technologies numériques dans le domaine de la recherche et de l'éducation,

[Non souligné dans l'original.]

[66] Contemporaneous papers authored by the Government of Canada also set out the rationale for protecting TPMs (Government of Canada, “*What the New Copyright Modernization Act Says About Digital Locks*”, Fact Sheet on Bill C-11, as reproduced in Barry Sookman, *Computer, Internet and Electronic Commerce Law*, loose-leaf, (Toronto: Carswell, 2016), ch 3.10 at 38-39):

Innovative companies, such as video game developers, will have the legal tools to protect the investments they have made in order to reinvest in future innovation and jobs.

Protecting digital locks gives copyright industries the certainty they need to roll out new products and services, such as online subscription services, software and video games, if they choose to use this technology. Not only will this promote investment and growth in Canada's digital economy, it will also encourage the introduction of innovative online services that offer access to content. Such services are increasingly available in other countries.

The Bill recognizes that certain protections, such as restricted content on news websites or locked video games, are important tools for copyright owners to protect their digital works and are often an important part of online and digital business models.

Introducing legal protections for digital locks brings Canada in line with international partners, as it is one of the requirements of the World Intellectual Property Organization Internet treaties.

While the music industry has moved away from digital locks on CDs, they continue to be used in many online music services. Software producers, the video game industry and movie distributors also continue to use digital locks to protect their investments. Canadian jobs depend on their ability to make a

return on their investment. Businesses that choose to use digital locks as part of their business models will have the protection of the law.

[Emphasis added.]

[67] S. 41 of the *Act* defines “technological protection measure” and “circumvention” as follows:

technological protection measure	mesure technique de protection
means any effective technology, device or component that, in the ordinary course of its operation,	Toute technologie ou tout dispositif ou composant qui, dans le cadre normal de son fonctionnement :
(a) controls access to a work, to a performer’s performance fixed in a sound recording or to a sound recording and whose use is authorized by the copyright owner; or	a) soit contrôle efficacement l’accès à une oeuvre, à une prestation fixée au moyen d’un enregistrement sonore ou à un enregistrement sonore et est autorisé par le titulaire du droit d’auteur;
(b) restricts the doing — with respect to a work, to a performer’s performance fixed in a sound recording or to a sound recording — of any act referred to in section 3, 15 or 18 and any act for which remuneration is payable under section 19. (<i>mesure technique de protection</i>)	b) soit restreint efficacement l’accomplissement, à l’égard d’une oeuvre, d’une prestation fixée au moyen d’un enregistrement sonore ou d’un enregistrement sonore, d’un acte visé aux articles 3, 15 ou 18 ou pour lequel l’article 19 prévoit le versement d’une rémunération. (<i>technological protection measure</i>)

circumvent means,

(a) in respect of a technological protection measure within the meaning of paragraph (a) of the definition technological protection measure, to descramble a scrambled work or decrypt an encrypted work or to otherwise avoid, bypass, remove, deactivate or impair the technological protection measure, unless it is done with the authority of the copyright owner; and

(b) in respect of a technological protection measure within the meaning of paragraph (b) of the definition technological protection measure, to avoid, bypass, remove, deactivate or impair the technological protection measure.
(*contourner*)

contourner

a) S'agissant de la mesure technique de protection au sens de l'alinéa a) de la définition de ce terme, éviter, supprimer, désactiver ou entraver la mesure — notamment décoder ou déchiffrer l'oeuvre protégée par la mesure — sans l'autorisation du titulaire du droit d'auteur;

b) s'agissant de la mesure technique de protection au sens de l'alinéa b) de la définition de ce terme, éviter, supprimer, désactiver ou entraver la mesure.
(*circumvent*)

[68] The Applicant relies on paragraph (a) of each definition, which relate to TPMs used to control access to copyrighted works (“access control TPMs”). The definitions under paragraphs (b), which relate to TPMs used to restrict infringing acts (sometimes referred to as “copy control TPMs”), are not at issue in the present Application, but are provided for context and assist in statutory interpretation below.

[69] The prohibited acts respecting TPMs are set out in s. 41.1(1) of the *Act*:

Prohibition

41.1 (1) No person shall
(a) circumvent a technological protection

Interdiction

41.1 (1) Nul ne peut :
a) contourner une mesure technique de protection au

measure within the meaning of paragraph (a) of the definition *technological protection measure* in section 41;

(b) offer services to the public or provide services if

(i) the services are offered or provided primarily for the purposes of circumventing a technological protection measure,

(ii) the uses or purposes of those services are not commercially significant other than when they are offered or provided for the purposes of circumventing a technological protection measure, or

(iii) the person markets those services as being for the purposes of circumventing a technological protection measure or acts in concert with another person in order to market those services as being for those purposes; or

(c) manufacture, import, distribute, offer for sale or rental or provide — including by selling or renting — any technology, device or component if

(i) the technology, device or component is designed or produced primarily for the purposes of circumventing a

sens de l'alinéa a) de la définition de ce terme à l'article 41

b) offrir au public ou fournir des services si, selon le cas :

(i) les services ont pour principal objet de contourner une mesure technique de protection,

(ii) les services n'ont aucune application ou utilité importante du point de vue commercial si ce n'est le contournement d'une mesure technique de protection,

(iii) il présente — lui-même ou de concert avec une autre personne — les services comme ayant pour objet le contournement d'une mesure technique de protection;

c) fabriquer, importer, fournir, notamment par vente ou location, offrir en vente ou en location ou mettre en circulation toute technologie ou tout dispositif ou composant si, selon le cas :

(i) la technologie ou le dispositif ou composant a été conçu ou produit principalement en vue de contourner une mesure

technological protection measure,	technique de protection,
(ii) the uses or purposes of the technology, device or component are not commercially significant other than when it is used for the purposes of circumventing a technological protection measure, or	(ii) la technologie ou le dispositif ou composant n'a aucune application ou utilité importante du point de vue commercial si ce n'est le contournement d'une mesure technique de protection,
(iii) the person markets the technology, device or component as being for the purposes of circumventing a technological protection measure or acts in concert with another person in order to market the technology, device or component as being for those purposes.	(iii) il présente au public — lui-même ou de concert avec une autre personne — la technologie ou le dispositif ou composant comme ayant pour objet le contournement d'une mesure technique de protection.

[70] The *Act* also provides certain exceptions to s. 41.1(1), such as s. 41.12 (interoperability of computer programs). These are further discussed below.

[71] The framework of the *Act* therefore requires the Court to consider the following questions: (1) whether the Applicant's technology, device, or component is a TPM within the definition of s. 41; (2) whether the Respondent has engaged in circumvention activities prohibited by s. 41.1(1); and, if raised, (3) whether any exception applies.

(1) The Applicant's TPMs

[72] The Applicant submits that each of its measures described above are "technological protection measures" within the meaning of the *Act*.

[73] The Applicant relies on the broad definition of “technological protection measures” in s. 41, which covers “any effective technology, device or component”. The open-ended language of this definition reflects Parliament’s intention to empower copyright owners to protect their business models with any technological tool at their disposal.

[74] The Applicant also relies on the principle of “technological neutrality” to argue that apart from being “effective”, there is no basis to discriminate against any particular type of technology, device, or component, such as physical configuration. As the Supreme Court noted in *Canadian Broadcasting Corporation v SODRAC 2003 Inc*, 2015 SCC 57 at paragraph 66:

The principle of technological neutrality is recognition that, absent parliamentary intent to the contrary, the Copyright Act should not be interpreted or applied to favour or discriminate against any particular form of technology. It is derived from the balancing of user and right-holder interests discussed by this Court in *Théberge* [*Théberge v Galerie d’Art du Petit Champlain inc*, 2002 SCC 34] — a “balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator”: para. 30. Because this long-standing principle informs the *Copyright Act* as a whole, it must be maintained across all technological contexts: “The traditional balance between authors and users should be preserved in the digital environment. . .” (*ESA [Entertainment Software Association v Society of Composers, Authors and Music Publishers of Canada]*, 2012 SCC 34], at para. 8).

[Emphasis added.]

[75] The Respondent disputes that the “Physical Configuration” of the Applicant’s DS and 3DS game cards is a TPM within the meaning of the *Act*. The Respondent is silent with respect to whether the Applicant’s Boot up Security Check and Encryption/Scrambling technologies constitute TPMs, but implicitly admits that the Applicant’s Format TPM and Wii Copy Protection Code constitute TPMs, by admitting circumvention (discussed below).

[76] The Respondent submits that, in the context of being a “protection measure”, an access control TPM must create a barrier to the work being copied. Thus, the Respondent argues, the shape of the Applicant’s game cartridges fails to meet the statutory requirement of a TPM because it does not establish a barrier to copying.

[77] The Respondent relies on the English High Court of Justice decision in *Nintendo Co Ltd et al v Playables Ltd et al*, [2010] EWHC 1932 (Ch), which was an application for summary judgment regarding the applicability of the “effective technological measure” (ETM) provisions under the *Copyright, Designs and Patents Act 1988* (U.K.), 1988, c. 48 (UK Act). The Game Copiers at issue in that case are similar to the ones at issue in the present Application. The Respondent cites Floyd J. at paragraph 23:

The first question is whether the Nintendo DS system has ETM. I have to say that I nurture some doubts about whether the physical shape and electrical characteristics of the connector amount to ETM. It is true that in order to copy a work onto the console one needs to make a device capable of being so connected. But it seems to me to be at least arguable that the section has in mind something which acts as a barrier to copying once such a connection has been made. In addition, the question raised seems to me to be one of fact and degree which were it the only basis on which the system could be said to have ETM, would have to go to trial.

[Emphasis added.]

[78] However, the Applicant points out that although Floyd J. “nurture[d] some doubts” about whether physical configuration can constitute an ETM, he held in the summary judgment application that the question “would have to go to trial”. Thus, his doubts are strictly *obiter dicta*.

[79] Further, the case is distinguishable because the Court applied the UK definition of “ETM”, which differs from the analogous Canadian statute on TPMs. Section 296ZF of the UK Act, as amended, provides:

- (1) In sections 296ZA to 296ZE, “technological measures” are any technology, device or component which is designed, in the normal course of its operation, to protect a copyright work other than a computer program.
- (2) Such measures are “effective” if the use of the work is controlled by the copyright owner through—
 - (a) an access control or protection process such as encryption, scrambling or other transformation of the work, or
 - (b) a copy control mechanism,
 which achieves the intended protection.

[Emphasis added.]

[80] It is evident from the wording and structure of the UK Act that it contemplates a narrower definition of “effective technological measure”, in that the “access control or protection process” is limited to encryption, scrambling or some “other transformation of the work”. Arguably, this implies that access control under the UK Act requires some barrier to copying.

[81] The Canadian *Act* has no such limitation. Under part (a) of the definition, a technological protection measure means “any effective technology, device or component that, in the ordinary course of its operation, (a) controls access to a work ...”. There is no suggestion that such effective technology requires transformation of the protected work.

[82] Consistent with the foregoing, the definition of “circumvent” for an access control TPM extends beyond descrambling and decryption (or other similar transformation) to anything else

that otherwise avoids, bypasses, removes, deactivates, or impairs the technological protection measure. It is apparent that Parliament intended access control TPMs to extend beyond TPMs that merely serve as barriers to copying.

[83] Moreover, since part (b) of the definition for technological protection measure covers “any effective technology, device or component that, in the ordinary course of its operation [...] restricts the doing [...] of any act referred to in section 3”, for example copying, it would be redundant and inconsistent with the structure of s. 41 to require access control TPMs to employ a “barrier to copying”.

[84] Thus, having regard to Parliament’s express intent to give copyright owners the power to control access to works, the principle of technological neutrality, the scheme of the *Act*, and the plain meaning of the definitions for TPM and “circumvent”, it is clear that access control TPMs do not need to employ any barrier to copying in order to be “effective”.

[85] The remaining question is whether the physical configuration of the Applicant’s game cards is an effective measure for controlling access to the Nintendo Games.

[86] The evidence shows that the physical configuration of the Applicant’s game cartridges, including the shape of the card and the arrangement of the electrical pins, was designed to fit specifically into a corresponding slot on each of its consoles. Together they operate much like a lock and key. This measure is quite effective in controlling access to genuine Nintendo Games on the Applicant’s game cards.

[87] In the normal course, a work contained on another medium with a different physical configuration, like an SD card, cannot be accessed by a user through the Applicant’s consoles. A

user without one of the Applicant's consoles is also unable to access a Nintendo Game on a genuine game card. It is therefore clear that the physical configuration is an access control TPM as contemplated under the *Act*.

[88] Applying the same logic, the two remaining Nintendo DS and 3DS access control TPMs, namely, Boot up Security Checks and Encryption/Scrambling, are also effective technologies under the definition of TPM under s. 41 of the *Act*. In particular, as noted, failure to pass the Boot up Security Checks prevents users from accessing and playing any Nintendo Game stored on a game card. Similarly, Encryption/Scrambling technology controls access to such Nintendo Games by enabling communication between the console and game card.

[89] Although implicitly admitted, the Format TPM and Wii Copy Protection Code are similarly effective technologies for controlling access to copyrighted works, namely, Nintendo Games for the Wii console. In particular, as noted, the Format TPM is a unique data format designed to be used only on Nintendo Games for the Wii console and the Wii Copy Protection Code must be present for users to access and play such games.

[90] Therefore, all the asserted access control measures are TPMs under s. 41 of the *Act*.

(2) The Respondent's circumvention activities

[91] The Applicant submits that the Respondent's Game Copiers circumvent each of the three TPMs used to control access to its Nintendo DS and 3DS games, and that by distributing, offering, and selling the Game Copiers, the Respondent has contravened s. 41.1(1)(c) of the *Act*.

[92] For liability under s. 41.1(1)(c), the Applicant must establish that the Respondent has committed one of the prohibited acts (e.g. selling Game Copiers, which is not disputed) and one

of the conditions (i), (ii), or (iii). Each of these conditions incorporate the word “circumvent” as defined in s. 41: “to descramble a scrambled work or decrypt an encrypted work or to otherwise avoid, bypass, remove, deactivate or impair the technological protection measure, unless it is done with the authority of the copyright owner”. There is a dispute only about the meaning of “circumvent”.

[93] The Respondent cites the *Concise Oxford English Dictionary*, 11th ed (2006), to narrowly interpret each of the words used in the definition of “circumvent”:

- a. **Avoid:** “(1) to keep away or refrain from – prevent from happening. (2) repudiate, nullify, or render void (a decree or contract)”;
- b. **Bypass:** “go past or round”;
- c. **Remove:** “take off or away from the position occupied”;
- d. **Deactivate:** “make (something) inactive by disconnecting or destroying it”;
- e. **Impair:** “weaken or damage”.

(Respondents’ Memorandum of Fact and Law, para. 49)

[94] In contrast, the Applicant submits that “circumvent” is broadly defined and open-ended. The words “or to otherwise avoid...” is inclusive language. The list of activities is exemplary rather than comprehensive. Moreover, Parliament provided a single limitation—“unless” the copyright owner has authorized it. Applying the interpretive *maxim expressio unius est exclusio alterius*, the Applicant submits that Parliament did not intend any further limitations under the definition.

[95] The dispute over the definition arises because the Respondent argues that the shape of its Game Copiers, which are designed to fit into the game card slot of Nintendo DS and 3DS consoles, is merely replication of the Physical Configuration TPM and not circumvention of the TPM.

[96] The Respondent's interpretation must be rejected for the following reasons.

[97] First, the Respondent's dictionary based approach to statutory interpretation ignores the scheme of the *Act* and purpose of the prohibition against circumvention.

[98] Second, there is no suggestion in the definition of "circumvent" that Parliament intended to exclude "replication" from the definition.

[99] Third, the Respondent's interpretation defies logic. Replication is not incompatible with circumvention. A burglar who uses an illicitly copied key to avoid or bypass a lock to access a house is no less of a burglar than one who uses a lock pick. Similarly, even if the Respondent's Game Copiers replicate only a part of the TPM, that does not make their use any less of a circumvention.

[100] In view of the foregoing, the Respondent's Game Copiers circumvent the Applicant's Physical Configuration TPM.

[101] With respect to the Boot up Security Check TPM, the Respondent makes an analogous argument: the Game Copiers merely replicate the TPM by reproducing or using a copy of the Header Data.

[102] However, applying the same reasoning as for the Physical Configuration TPM, it is apparent that the Game Copiers also circumvent the Boot up Security Check TPM, within the meaning of the *Act*.

[103] With respect to Scrambling and Encryption, the Respondent makes a limited admission that the Game Copiers descramble or decrypt communications from the Applicant's game consoles. However, the Respondent submits that this TPM merely provides access to the operating system of the Applicant's consoles and does not act upon the TPMs implemented on Nintendo Games.

[104] The Respondent's position is not supported by the evidence.

[105] First, owners of Nintendo DS and 3DS consoles already have access to the operating system and can play authorized games using the operating system. In the case of the Nintendo DS console, users can also access pre-installed software without any game card inserted. Accordingly, the Respondent's Game Copiers are not needed to access the operating system (Rhoads 1, Applicant's Record, p. 85).

[106] Second, even if the Game Copiers provide access to the operating system, it is irrelevant, because they also provide unauthorized access to Nintendo Games. The evidence plainly shows that the Game Copiers permit users to play unauthorized copies of video games that would otherwise be unplayable without these devices (Rhoads 1, Applicant's Record, p. 93). That is all that is required. The fact that the Game Copiers may have additional functions beyond circumventing the Applicant's TPMs is irrelevant for the purpose of this analysis.

[107] Therefore, the Respondent's Game Copiers also circumvent the Applicant's Encryption and Scrambling TPMs.

[108] Once circumvention is established, it must be shown that the Respondent engaged in a prohibited activity within subparagraphs (i), (ii), or (iii) of s. 41.1(1)(c).

[109] The Respondent does not dispute that it has distributed, offered for sale, and sold Game Copier devices. The Respondent also admits that its Game Copiers are "not commercially significant other than to circumvent the TPMs through the descrambling of encrypted communications from the DS Systems" (Respondents' Memorandum of Fact and Law, para. 82). The evidence also shows that the Respondent knew that its Game Copiers were used by its customers to play pirated Nintendo Games (Applicant's Record, pp. 1185-1190). This is sufficient to satisfy s. 41.1(1)(c)(ii).

[110] The Respondent has therefore trafficked in circumvention devices contrary to s. 41.1(1)(c) of the *Act*.

[111] With respect to circumvention of Wii TPMs, the Respondent admits that it provided services to circumvent the Wii TPMs through sale and providing installation services for mod chips. The Respondent has therefore contravened s. 41.1(1)(b), subject only to its "interoperability defence" discussed below.

[112] The evidence also establishes that the Respondent directly circumvented the Applicant's Wii TPMs by installing a mod chip on a Wii console, thereby enabling a user to access unauthorized copies of the Applicant's video games. Therefore, the Respondent also contravened s. 41.1(1)(a) of the *Act*.

(3) Interoperability defence and “homebrew”

[113] The Respondent raises an affirmative defence under s. 41.12 of the *Act*, which is a section titled “interoperability of computer programs”. The Respondent also asserts a “homebrew” defence. However, as “homebrew” is not a recognized exception under the *Act*, it is assumed that the Respondent’s reference to “homebrew” is for the purpose of establishing the interoperability exception under s. 41.12.

[114] The Respondent bears the burden of establishing that it meets one of the exceptions under the *Act* (*CCH*, at para 48). However, the Respondent adduced no evidence in support of this defence. Instead, it relied solely on evidence from the Applicant.

[115] Subsections (1), (2), and (3) of s. 41.12 provide an “interoperability” exception to each of the activities under paragraphs (a), (b), and (c) of s. 41.1(1), respectively.

[116] The required elements for the defence differ slightly under each subsection. The provisions are reproduced below for reference:

Interoperability of computer programs

41.12 (1) Paragraph 41.1(1)(a) does not apply to a person who owns a computer program or a copy of one, or has a licence to use the program or copy, and who circumvents a technological protection measure that protects that program or copy for the sole purpose of obtaining information that would allow the person to make the program and any other computer program interoperable.

Interopérabilité

41.12 (1) L’alinéa 41.1(1)a ne s’applique pas à la personne qui est le propriétaire d’un programme d’ordinateur ou d’un exemplaire de celui-ci, ou qui est titulaire d’une licence en permettant l’utilisation, et qui contourne la mesure technique de protection dans le seul but d’obtenir de l’information lui permettant de rendre ce programme et un autre programme d’ordinateur interopérables.

Services

(2) Paragraph 41.1(1)(b) does not apply to a person who offers services to the public or provides services for the purposes of circumventing a technological protection measure if the person does so for the purpose of making the computer program and any other computer program interoperable.

Technology, device or component

(3) Paragraph 41.1(1)(c) does not apply to a person who manufactures, imports or provides a technology, device or component for the purposes of circumventing a technological protection measure if the person does so for the purpose of making the computer program and any other computer program interoperable and

(a) uses that technology, device or component only for that purpose; or

(b) provides that technology, device or component to another person only for that purpose.

Services

2) L'alinéa 41.1(1)b) ne s'applique pas à la personne qui offre au public ou fournit des services en vue de contourner la mesure technique de protection afin de rendre le programme et un autre programme d'ordinateur interopérables.

Technologie, dispositif ou composant

(3) L'alinéa 41.1(1)c) ne s'applique pas à la personne qui fabrique, importe ou fournit une technologie ou un dispositif ou composant en vue de contourner la mesure technique de protection afin de rendre le programme et un autre programme d'ordinateur interopérables et qui, soit les utilise uniquement à cette fin, soit les fournit à une autre personne uniquement à cette fin.

[117] In support of its defence, the Respondent makes much of the potential availability of “homebrew” software. “Homebrew” refers to third party software designed for use on the Applicant’s consoles, but which are not necessarily owned or licensed by the Applicant.

[118] The Respondent relies heavily on a report submitted by the Applicant regarding the relative prevalence of illicit software (*e.g.* pirated video games) versus “homebrew” software

available on the internet (Applicant's Record, pp. 150-346). The Respondent's position appears to be that its sale of circumvention devices and installation services are for the purpose of making the Applicant's game consoles "interoperable" with homebrew software.

[119] The Respondent's position is unfounded.

[120] First, the Applicant's evidence establishes that the primary purpose of the Respondent's devices is to enable users to play pirated copies of Nintendo Games (Rhoads 1, Applicant's Record, p. 98; Rhoads 2, Applicant's Record, p. 919).

[121] Second, although homebrew software may be available on the internet and users of the Respondent's devices *could* theoretically be using them for homebrew, the scale of such activities is dwarfed by the market for illicit and infringing activities (Applicant's Record, pp. 157-158, 294). Indeed, most of the websites purporting to make homebrew software available also offer (in far greater quantities) unauthorized copies of the Applicant's copyrighted games.

[122] Third, the Respondent's own website belies its submission. The only mention of "homebrew" on the Respondent's website states "no homebrew at the moment". Having effectively advised its customers that homebrew is unavailable, the Respondent is in no position to show that its products and services were for this purpose (Hunter, Applicant's Record, pp. 1186-1189).

[123] Fourth, the Applicant's evidence establishes that there are legitimate paths for developers to develop software on its consoles without circumventing the Applicant's TPMs. There is no need for any TPM circumvention to achieve interoperability.

[124] Fifth, the Respondent failed to adduce any evidence that any users actually *did* use their services or devices for the purpose of making the Applicant's consoles interoperable with homebrew software.

[125] In view of the foregoing, the Respondent has not met its burden of establishing that its activities fall within s. 41.12 of the *Act*.

C. Remedies

(1) Statutory damages

[126] The Applicant has elected to recover statutory damages for both copyright infringement and TPM circumvention.

[127] The parties differ over the manner in which statutory damages ought to be calculated and the amount that should be awarded.

[128] The following issues must be decided: (1) in respect of TPM circumvention, whether statutory damages are calculated "per TPM circumvented" or "per work" that the circumvention grants unauthorized access to; (2) whether the Respondent has demonstrated a special case for limiting statutory damages; and (3) the amount of each statutory damage award.

[129] The relevant statutory provisions of the *Act* are ss. 38.1(1)(a), 38.1(3), 41.1(2), and 41.1(4).

[130] The availability and range of statutory damages for commercial activities is provided in paragraph 38.1(1)(a):

Statutory damages

38.1 (1) Subject to this section, a copyright owner may elect, at any time before final judgment is rendered, to recover, instead of damages and profits referred to in subsection 35(1), an award of statutory damages for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally,

(a) in a sum of not less than \$500 and not more than \$20,000 that the court considers just, with respect to all infringements involved in the proceedings for each work or other subject-matter, if the infringements are for commercial purposes; [...]

**Dommages-intérêts
préétablis**

38.1 (1) Sous réserve des autres dispositions du présent article, le titulaire du droit d'auteur, en sa qualité de demandeur, peut, avant le jugement ou l'ordonnance qui met fin au litige, choisir de recouvrer, au lieu des dommages-intérêts et des profits visés au paragraphe 35(1), les dommages-intérêts préétablis ci-après pour les violations reprochées en l'instance à un même défendeur ou à plusieurs défendeurs solidairement responsables :

a) dans le cas des violations commises à des fins commerciales, pour toutes les violations — relatives à une oeuvre donnée ou à un autre objet donné du droit d'auteur —, des dommages-intérêts dont le montant, d'au moins 500 \$ et d'au plus 20 000 \$, est déterminé selon ce que le tribunal estime équitable en l'occurrence;

[131] Subsection 38.1(3) provides an exception to the general rule:

Special case

(3) In awarding statutory damages under paragraph (1)(a) or subsection (2), the

Cas particuliers

(3) Dans les cas où plus d'une oeuvre ou d'un autre objet du droit d'auteur sont incorporés

court may award, with respect to each work or other subject-matter, a lower amount than \$500 or \$200, as the case may be, that the court considers just, if

(a) either

(i) there is more than one work or other subject-matter in a single medium, or

(ii) the award relates only to one or more infringements under subsection 27(2.3); and

(b) the awarding of even the minimum amount referred to in that paragraph or that subsection would result in a total award that, in the court's opinion, is grossly out of proportion to the infringement.

dans un même support matériel ou dans le cas où seule la violation visée au paragraphe 27(2.3) donne ouverture aux dommages-intérêts préétablis, le tribunal peut, selon ce qu'il estime équitable en l'occurrence, réduire, à l'égard de chaque oeuvre ou autre objet du droit d'auteur, le montant minimal visé à l'alinéa (1)a) ou au paragraphe (2), selon le cas, s'il est d'avis que même s'il accordait le montant minimal de dommages-intérêts préétablis le montant total de ces dommages-intérêts serait extrêmement disproportionné à la violation.

[132] In the case of TPM circumvention, entitlement to damages is provided by ss. 41.1(2) and

(4) of the *Act*:

(2) The owner of the copyright in a work, a performer's performance fixed in a sound recording or a sound recording in respect of which paragraph (1)(a) has been contravened is, subject to this Act and any regulations made under section 41.21, entitled to all remedies — by way of injunction, damages, accounts, delivery up and otherwise — that are or may be conferred by law for the infringement of copyright against the person who contravened that paragraph.

(2) Sous réserve des autres dispositions de la présente loi et des règlements pris en vertu de l'article 41.21, le titulaire du droit d'auteur sur une oeuvre, une prestation fixée au moyen d'un enregistrement sonore ou un enregistrement sonore est admis, en cas de contravention de l'alinéa (1)a) relativement à l'oeuvre, à la prestation ou à l'enregistrement, à exercer contre le contrevenant tous les recours — en vue notamment d'une injonction, de

[...]

dommages-intérêts, d'une reddition de compte ou d'une remise — que la loi prévoit ou peut prévoir pour la violation d'un droit d'auteur.

[...]

(4) Every owner of the copyright in a work, a performer's performance fixed in a sound recording or a sound recording in respect of which a technological protection measure has been or could be circumvented as a result of the contravention of paragraph (1)(b) or (c) is, subject to this Act and any regulations made under section 41.21, entitled to all remedies — by way of injunction, damages, accounts, delivery up and otherwise — that are or may be conferred by law for the infringement of copyright against the person who contravened paragraph (1)(b) or (c).

[Emphasis added.]

(4) Sous réserve des autres dispositions de la présente loi et des règlements pris en vertu de l'article 41.21, le titulaire du droit d'auteur sur une oeuvre, une prestation fixée au moyen d'un enregistrement sonore ou un enregistrement sonore est admis à exercer, contre la personne qui a contrevenu aux alinéas (1)b) ou c), tous les recours — en vue notamment d'une injonction, de dommages-intérêts, d'une reddition de compte ou d'une remise — que la loi prévoit ou peut prévoir pour la violation d'un droit d'auteur, dans le cas où la contravention a entraîné ou pourrait entraîner le contournement de la mesure technique de protection qui protège l'oeuvre, la prestation ou l'enregistrement.

[Non souligné dans l'original.]

[133] The Applicant contends that statutory damages for TPM circumvention ought to be calculated on a per-work basis, i.e. each copyrighted work that the circumvention grants unauthorized access to attracts a separate award of statutory damages. Using the per-work approach, the Applicant seeks a range of statutory damages between \$294,000 to \$11,700,000

for TPM circumvention of 585 different Nintendo Games, based on a statutorily mandated range between \$500 and \$20,000 per work.

[134] In contrast, the Respondent argues there should be no statutory damages for TPM circumvention, since it would create an unprecedented award where no actual copyright infringement has been proven for the Nintendo Games. In support of its position, the Applicant repeats that the TPM circumvention provided access to the Applicant's operating systems, and not to the Nintendo Games.

[135] In the alternative, the Respondent submits that damages should be calculated "based on the number of TPMs circumvented", as it is a "linear analogy where each TPM is treated as a specific work" (Respondents' Memorandum of Fact and Law, paras. 94-103).

[136] The Applicant's approach should be adopted for the following reasons.

[137] First, actual infringement of copyright is not necessary for an award of statutory damages for TPM circumvention. This proposition is self-evident from the scheme of the statute. Subsection 41.1(4) provides that the copyright owner is entitled to all remedies where "a technological protection measure has been or could be circumvented as a result of the contravention of paragraph (1)(b) or (c)". This implies that actual circumvention is not required. It logically follows that actual access or copying of a copyrighted work is also not required. Moreover, s. 41.1 does not limit damages for TPM circumvention to circumstances involving actual copyright infringement. Had Parliament intended to make actual copyright infringement a necessary element for recovering damages, it easily could have done so as it did in s. 38.1(1.1) in respect of an infringement under s. 27(2.3).

[138] Second, a work-based award is more harmonious with the wording of the *Act*. Subsection 41.1(4) provides that the “owner of the copyright in a work” is entitled to all remedies. If the owner of a single work may claim all remedies for infringement of that one work, it follows that the owner of multiple works is entitled to a separate remedy for each infringed work. This is also consistent with the wording in s. 38.1(1), which provides remedies for infringement of “each work or other subject matter”.

[139] Third, the economic reality of copyright vis-à-vis TPM circumvention favours a work-based calculation. The “market” for circumvention devices and services is driven by the value of the works to which access is illicitly gained. A robber breaks a lock because of the value behind the lock, not because of the value of the lock(s). If the Applicant had not invested millions of dollars to create a library of valuable video games, the Respondent would have no market for its circumvention devices.

[140] Fourth, a TPM-based award of damages would likely be ineffective. Parliament recognized the importance of TPMs as tools to prevent piracy and to protect investments made by the creative industry. In order to be effective, those legal tools must reflect the value of the works protected and act as a deterrent to the circumvention industry. The Applicant’s consoles are each protected by 2 or 3 TPMs, whereas circumvention provides access to hundreds of the Applicant’s video games. In effect, a TPM-based award would become a fixed cost of business for trafficking in circumvention devices. Perversely, this would incentivize TPM circumvention for the most popular and valuable copyright libraries. That could not have been Parliament’s intention.

[141] In the circumstances, the Applicant is entitled to a statutory damage award for each of the 585 Nintendo Games to which the Respondent's circumvention devices provide unauthorized access.

[142] The Applicant is also entitled to statutory damages for each of the 3 Header Data works in which copyright infringement has been established.

[143] The next question is whether the Respondent has established a special case for reducing the available range of statutory damages.

[144] Under s. 38.1(1) of the *Act*, the usual range of statutory remedies for copyright infringement with a commercial purpose is \$500 to \$20,000 per work.

[145] The Respondent does not dispute that its activities are commercial, but cites s. 38.1(3) in support of its argument that an award of statutory damages can be below \$500 (Respondents' Memorandum of Fact and Law, para. 88).

[146] As in any other affirmative defence in the *Act*, the Respondent bears the burden of proving that the exception applies. Subsection 38.1(3) has two required elements. The Respondent must establish both.

[147] For the following reasons, the Respondent does not establish either.

[148] As for the first element, paragraph 38.1(3)(a) requires there to be "more than one work ... in a single medium". This may apply, for example, to newspapers or anthologies, where multiple copyrights may exist in a single copied medium. This does not apply here, as the Applicant

asserts only a single copyright in respect of each Nintendo Game (one copy of which is stored on a single medium on an authorized Nintendo game card).

[149] As for the second element, paragraph 38.1(3)(b) requires the Respondent to establish that the total award would be “grossly out of proportion to the infringement”. To assess proportionality, the Court would need evidence of, among other things, the Respondent’s revenues and profits. If any such evidence existed, it would plainly have been within the Respondent’s power to adduce. It did not do so. In the circumstances, it is reasonable to infer that such evidence either did not exist or would not have helped the Respondent.

[150] Conversely, the Applicant adduced evidence that each video game can take years and millions of dollars to develop, and that there are 585 copyrighted Nintendo Games at issue.

[151] In view of the foregoing, s. 38.1(3) does not apply. Accordingly, the range of statutory damages available is between \$500 and \$20,000 per work.

[152] The final step is to determine the measure of statutory damages to be applied to each work. The Applicant seeks the maximum statutory damage of \$20,000 for each work, while the Respondent submits, based on its one admitted act of copyright infringement, that \$8,000 is appropriate under the circumstances.

[153] Subsection 38.1(5) of the *Act* provides factors that the Court shall consider in determining the appropriate measure of statutory damages:

- a. the good or bad faith of the defendant;
- b. the conduct of the parties before and during the proceedings; and
- c. the need to deter other infringements of the copyright in question.

[154] The Applicant has adduced evidence showing that: the Respondent was aware of the anti-circumvention provisions under the *Act* and the Applicant's efforts to control unauthorized access to its video games; the Respondent warned customers they may be banned from the Applicant's network for using circumvention devices; and the Respondent advised customers how to use the devices with certain pirated video games and how to avoid detection (Applicant's Record, pp. 1186-1190, 1201-1202).

[155] The Applicant has also adduced evidence showing that the Respondent deals in other purported circumvention devices for other platforms and appears to have close relationships with manufacturers of circumvention devices, all of which is indicative of an industrial scale operation. Indeed, the Respondent's websites and social media promote it as the "#1 Modchip Store". There is also evidence that the Respondent is taking pre-orders for circumvention devices designed for the next generation of the Applicant's console, the Wii U (Applicant's Record, p. 1195).

[156] In response, the Respondent asserts that it is a "long running electronic accessories small business and employs a number of individuals" (Respondents' Memorandum of Fact and Law, para.90). However, without evidence, this is a bare assertion. There is simply no support for the Respondent's suggestion that it is a "small fish" (Respondents' Memorandum of Fact and Law, para 9).

[157] The Respondent also submits that the Applicant did not provide it with the opportunity to cease and desist its activities, and that it has "admitted its wrongdoing" (Respondents' Memorandum of Fact and Law, para. 91).

[158] This Court has previously taken a dim view of infringers who attempt to shift blame to rights holders (*Adobe Systems Incorporated v Dale Thompson DBA Appletree Solutions*, 2012 FC 1219 at para 5, 420 FTR 55).

[159] Moreover, as of the hearing of this Application, the Respondent had still adduced no evidence to show that it had ceased its activities—more than eight months after it was served with the Notice of Application. Accordingly, there is no evidence that a cease and desist letter would have done anything to deter the Respondent's trafficking in circumvention devices.

[160] Finally, the Respondent's admission, limited to damages for one act of copyright infringement, is a calculated and self-serving attempt to minimize damages.

[161] The evidence is sufficient to establish bad faith and misconduct on the part of the Respondent, militating in favour of a maximum award of damages.

[162] The need for deterrence further reinforces that a maximum award of \$20,000 per work is warranted in the circumstances.

[163] Damages should be significant enough to deter others who may wish to engage in similar illicit activities and also to deter the Respondent from resuming such activities.

[164] In respect of the general need for deterrence, Parliament has clearly indicated its intention to protect investments made by the creative industry, including specifically the video game industry. TPMs are important tools to protect these investments. An award of maximum statutory damages reflects the disproportionate harm that may be caused to copyright owners by those

engaged in circumvention, as they provide access to entire libraries of copyrighted works while profiting from others' investments.

[165] In respect of the specific need to deter the Respondent, there is evidence of recidivism by the Respondent's director Mr. King, who has been involved in similar activities in the past (Applicant's Record, pp. 1203-1205). The Respondent's business also appears to be dedicated to circumvention activities. Further, the Respondent continues to promote illegitimate activities such as piracy of television programs and circumvention devices for other platforms (Applicant's Record, pp. 1193-1198). All of this demonstrates an acute need for deterrence.

[166] In view of the foregoing factors, an award of \$20,000 per work is reasonable and justified. This Court has not previously hesitated to award maximum statutory damages where it was warranted. (*Louis Vuitton Malletier SA v Singa Enterprises (Canada) Inc*, 2011 FC 776 at paras 156-158, [2013] 1 FCR 413; *Microsoft Corporation v 9038-3746 Quebec Inc*, 2006 FC 1509 at paras 112-113, 305 FTR 69; *Louis Vuitton Malletiers SA v Yang*, 2007 FC 1179 at paras 18-26, 62 CPR (4th) 362; *Adobe*, above at paras 5-8; *Twentieth Century Fox Film Corp v Hernandez* (3 December 2013), Toronto T-1618-13 (Fed. Ct.), 2013 CarswellNat 6160 at p. 3 (FC) (WL Can)). This is such a case.

[167] Therefore, the Applicant is entitled to statutory damages of \$11,700,000 for TPM circumvention in respect of its 585 Nintendo Games, and of \$60,000 for copyright infringement in respect of the three Header Data works.

(2) Punitive damages

[168] The Applicant also seeks \$1,000,000 in punitive damages.

[169] Section 38.1(7) of the *Act* provides that punitive damages may be awarded even where the Applicant elects statutory damages.

[170] Punitive damages are intended to reflect the objectives of retribution, deterrence, and denunciation (*Whiten v Pilot Insurance Co*, 2002 SCC 18 at para 123, [2002] 1 SCR 595). These objectives are equally applicable to copyright infringement. In *Adobe*, above, at paragraph 11, this Court set out certain factors relevant for an award of punitive damages:

It appears that if a defendant's conduct can be characterized as "outrageous", "highly unreasonable" or showing a callous disregard for the rights of the plaintiff, punitive damages will be warranted (*Louis Vuitton Malletier S.A. v Singga Enterprises (Canada) Inc.*, 2011 FC 776 (FC) at para 168). When assessing whether conduct can be characterized in such terms, the following factors are helpful to consider: (i) the scale and duration of the infringing activities; (ii) cooperation of the infringing party during court proceedings and willingness to admit wrongdoing; (iii) whether the infringing party's actions were knowing, planned and deliberate; (iv) whether the infringing party attempted to conceal and cover up wrongdoings; (v) whether the infringing party continues to infringe the copyright in question; and (vi) whether the conduct of the infringing party in the course of the proceedings has resulted in the additional costs to the Plaintiffs (*Louis Vuitton Malletier S.A. v Singga Enterprises (Canada) Inc.*, *supra* at para 170-176).

[171] In this case, the Respondent has shown callous disregard for the Applicant's rights. It is clear from the evidence that the Respondent knowingly and deliberately sold circumvention devices, and promoted such activities to its customers. Its activities have gone on for years, and it offers a wide range of circumvention products. The Respondent also operates under a misleading unregistered business name. The evidence further suggests the Respondent intends to expand its activities, to market and sell TPM circumvention devices for the Applicant's next generation of game consoles (Rhoads 2, Applicant's Record, p. 925; Hunter, Applicant's Record, pp. 1095 and 1193-1195).

[172] The Respondent's admissions of wrongdoing are of limited value, since they are calculated to limit liability rather than address the full nature and extent of its infringing activities. This Court has previously awarded punitive damages notwithstanding such limited admissions of infringement (*Louis Vuitton Malletier S.A. v Singga Enterprises (Canada) Inc.*, above).

[173] Further, the fact that the Applicant did not issue a cease-and-desist letter to the Respondent prior to commencing this proceeding is of no moment. As noted, there is no evidence that doing so would have made any difference. Given the nature of the Respondent's business, the Applicant was reasonable in commencing this proceeding in the manner that it did.

[174] The Respondent's conduct justifies an award of punitive damages. An award of \$1,000,000 is warranted in this case in view of the strong need to deter and denounce such activities. Such an award is also consistent with the scale of penalties available if this were a criminal proceeding under s. 42 of the *Act*.

(3) Injunctive relief

[175] An injunction is the normal remedy for infringement of copyright. Here, the Applicant also seeks a wide injunction under s. 39.1(1) of the *Act* to prohibit the Respondent from infringing copyright in any other work owned by the Applicant and from trafficking in any circumvention devices that circumvent the Applicant's TPMs.

[176] The Applicant has satisfied the burden of showing that the Respondent is likely to continue infringing copyright and circumventing TPMs absent an injunction.

[177] Thus, the Respondent should be enjoined from infringing any of the Applicant's copyrights and circumventing any of the Applicant's TPMs.

(4) Delivery up

[178] Delivery up of the infringing goods (TPM circumvention devices) is also a standard remedy and is warranted in this case (*Microsoft*, above at para 102).

(5) Costs

[179] The Applicant sought elevated costs on the basis that this Application has taken a significant amount of time, effort, and expense, has been relatively complex in view of the novelty of the issues raised, the extensive investigative effort required to uncover the Respondent's activities, and to ensure that copyright owners can effectively seek similar remedies by having costs reflect the reality of intellectual property enforcement.

[180] The Applicant also no longer seeks solicitor-client costs, and takes no issue with the conduct of Respondent's counsel.

[181] Given the foregoing, elevated costs under Column V of Tariff B are warranted.

JUDGMENT

THIS COURT ORDERS AND DECLARES that:

1. Copyright subsists in the 585 Nintendo Games identified in Schedules “A”, “B”, “C”, and “D” of the Notice of Application;
2. Copyright subsists in the three registered Header Data works, namely:
 - a. Copyright Registration Number 1,051,042: NINTENDO DS BOOT CODE (a.k.a. NINTENDO DS HEADER CODE);
 - b. Copyright Registration Number 1,094,948: NINTENDO 3DS STARTUP SEQUENCE; and
 - c. Copyright Registration Number 1,110,536: GAME BOY ADVANCE BOOT CODE WITH NINTENDO LOGO DATA FILE;
3. The Applicant Nintendo of America Inc. is the owner of copyright in the Nintendo Games and Header Data Works;
4. The Respondent, Go Cyber Shopping (2005) Ltd., has infringed the Applicant’s copyright in the Header Data Works; and
5. The Respondent, Go Cyber Shopping (2005) Ltd., has circumvented, offered services to the public and provided services to circumvent, distributed, offered for sale, and provided technologies, devices, and

components to circumvent the Applicant's technological protection measures which control access to the Nintendo Games.

THIS COURT ORDERS AND ADJUGES that:

1. The Respondent, Go Cyber Shopping (2005) Ltd., including its officers, directors, servants, employees, workers, agents, or any other persons under its direction, power, or control, shall be enjoined from:
 - a. Circumventing; offering services to the public for the purposes of circumventing; or manufacturing, importing, distributing, offering for sale, or otherwise providing technologies, devices, and/or components that circumvent any technological protection measure employed by the Applicant to control access to any of its copyrighted works;
 - b. Selling or renting, distributing; by way of trade distributing, exposing or offering for sale or rental, or exhibit in public; possessing for the purpose of selling, renting, distributing or trading; or importing for the purpose of selling, renting, distributing or trading, any copies of the Applicant's copyrighted works or any substantial parts thereof or any goods containing said works or substantial parts thereof;
2. The Respondent, Go Cyber Shopping (2005) Ltd., shall deliver up for destruction, all goods, articles, works, technologies, devices, components,

or other materials in its possession or control or that may have come into their possession or control that offend against the injunction issued; and

3. The Respondent, Go Cyber Shopping (2005) Ltd., shall pay forthwith to the Applicant, Nintendo of America Inc.:
 - a. \$11,700,000 in statutory damages pursuant to s. 38.1 of the *Copyright Act* in respect of circumvention of technological protection measures;
 - b. \$60,000 in statutory damages pursuant to s. 38.1 of the *Copyright Act* in respect of copyright infringement of the Header Data works;
 - c. \$1,000,000 in punitive damages;
 - d. pre-judgment interest in the prescribed amount of 0.8% under the *Courts of Justice Act*, RSO 1990, c C-43, on the award of statutory damages calculated from May 12, 2016;
 - e. post-judgment interest in the prescribed amount of 2.0% under the *Courts of Justice Act*, RSO 1990, c C-43, on the award of statutory damages calculated from the date of this judgment;

- f. costs, assessed under Column V of Tariff B to the *Federal Courts Rules*.

"Douglas R. Campbell"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-245-16

STYLE OF CAUSE: NINTENDO OF AMERICA INC. v JERAMIE
DOUGLAS KING AND GO CYBER SHOPPING (2005)
LTD.

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: OCTOBER 18, 2016 AND NOVEMBER 22, 2016

**DIRECTION AT HEARING
(NOVEMBER 22, 2016)** SUPPLEMENTAL WRITTEN SUBMISSIONS OF THE
APPLICANT FILED PURSUANT TO DIRECTION
ISSUED AT HEARING ON NOVEMBER 22, 2016

JUDGMENT AND REASONS: CAMPBELL J.

DATED: MARCH 1, 2017

APPEARANCES:

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