



ARTICLES

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THE MODERN REMEDY OF ACCOUNT

1. INTRODUCTION

'The law relating to account [of profits],' according to Lawson,¹ 'has many dark corners which have not been illuminated in the books or in the course of litigation; and it seems that more use might with advantage be made of the remedy.'² Lindley LJ said in *Siddell v Vickers*:³

'I do not know of any form of account which is more difficult to work out...than an account of profits...[Such] accounts...very seldom result in anything satisfactory to anybody. The litigation is enormous, the expense is great and the time consumed is out of all proportion to the advantage ultimately attained...I believe in almost every case people get tired of it and get disgusted. Therefore, although the law is that a patentee has the right to elect which course he will take, as a matter of business he would generally be inclined to take an inquiry as to damages rather than launch upon an enquiry as to profits.'⁴

Lindley LJ is perhaps alluding here, if not to the 'dark corners',⁵ then to the obfuscations resulting from the lack of illumination. The following examination of the modern status of the remedy of account seeks to chart the dimensions of those 'dark corners', by focussing upon the operation of the remedy principally in the industrial and intellectual property area.

The article also seeks to make a response to the assertion of Lawson that 'more use might with advantage be made of the remedy'⁶ both by considering the legal and practical problems involved in the remedy and by considering questions of restitution 'policy'.

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1 In Lawson, *Remedies of English Law* (2nd edn 1980).

2 *Ibid* 143.

3 (1892) 9 RPC 12.

4 *Ibid* 162-163.

5 See Lawson, *supra* n 1 at 143.

6 *Ibid*.

2. THE HISTORICAL ASPECTS OF JURISDICTION

Meagher, Gummow and Lehane point out that the general view is that by approximately 1760 the original action for account of profits which was a common law action had been superseded by the equitable action for account of profits.⁷ They refer to the 'elaborate technicality'⁸ of the three stages necessary to be taken for a common law action of account, which they say partially contributed to the demise of that action. The equitable action on the other hand was a quicker and more convenient method for gaining an order for account of profits.⁹ Stoljar, in addition to referring to some procedural difficulties in relation to the common law action of account,¹⁰ refers to another matter resulting in the demise of the action. That was the growth of the action for money had and received.¹¹ In the first place, this action, an offshoot of the common law action of account, tended, because of certain advantages with respect to procedure,¹² to deal with many of the matters previously within the province of the common law action of account of profits. As Stoljar says: 'In the end...money had and received virtually superseded its main progenitor, the action of account'.¹³ In the second place, the connection between money had and received and *assumpsit* resulted in the belief that the only situation in which an action for money had and received could be sustained was in a claim based on contract. Stoljar goes on to say:

'[T]his contractualisation of money had and received not only obscured its historical connection with account, it did much worse, it obscured the whole doctrine that account had evolved: the doctrine that money could be recovered quite independently of debt or contract, that money was thus recoverable on a theory of trust or accountability, that is recoverable wherever a defendant was in possession of a sum of money that could be said to belong to the plaintiff, to be his rather than the defendant's property.'¹⁴

In fairness, it should be said that the equitable action for account was by no means untroubled by procedural difficulties. Both Meagher, Gummow and Lehane¹⁵ and Stoljar¹⁶ refer to the case of *Godfrey v Saunders*¹⁷ in which an action in equity for account of profits had 'been fruitlessly depending...for more than twelve years'. Equity had, however, by the end of the 17th century, not only developed its own regular jurisdiction to give an account of profits in testamentary matters but had made excursions further afield.

7 Meagher, Gummow and Lehane, *Equity* (2nd edn 1984) 627. The history of the action of account of profits prior to 1760 is considered, *inter alia*, in Stoljar, 'The Transformations of Account' (1964) 80 LQR 203, 203-219.

8 *Ibid.*

9 See Lord Redesdale in *A-G v Dublin Corp* (1827) 1 Bli NS PC 312, 337; 4 ER 888, 898. Meagher, Gummow & Lehane, *supra* n 7, also refer to this case.

10 Stoljar, *supra* n 7 at 212-215.

11 *Ibid* 215-219.

12 *Ibid* 216. Stoljar refers, in particular, to the simplified form of pleading in an action for money had and received.

13 *Ibid* 218.

14 *Ibid* 219.

15 Meagher, Gummow and Lehane, *supra* n 7 at 628.

16 Stoljar, *supra* n 7 at 222.

17 (1770) 3 Wils KB 73, 95; 95 ER 940, 953.

'For equity could do what the common law could not, that is, order an agent or factor to account, sometimes even to re-account, where there was an allegation of fraud (fraud being something of which the common law took no direct cognisance), or where some further accounting...was in the public interest. For these reasons equity became regarded as the appropriate forum for accounts of complexity.'¹⁸

Equity became eventually so closely identified with the action for account of profits that it superseded the common law action. It should be obvious, nevertheless, that the ascendancy of the courts of equity in the area of action for account of profits is as much due to the decline in use of the common law action as it was to the thriving nature of the equitable action in the 17th and 18th centuries. The result is that the action which we now know as the action for account of profits is that of the Court of Equity.

Since the remedy of account of profits was (and now is) an equitable one, a question arose as to the types of action in which it would be awarded. Clearly, where the right being relied upon to initiate the action was an equitable one the litigant would be entitled to a remedy of account of profits. However, where the right being relied upon was a common law right the situation was less clear.¹⁹ Meagher, Gummow and Lehane have suggested six categories in which equity would order an account of profits in support of a common law right. One of these categories relates to the infringement of industrial and intellectual property rights.²⁰ In *Hogg v Kirby*,²¹ Lord Eldon appeared to accept the fact that a Court of Equity was able to grant an account of profits for the breach of an intellectual property right. Lord Eldon was considering the question, inter alia, of whether or not a property right in a literary work had been infringed by the publication by the defendant of a magazine which appeared to be a continuation of a magazine series published by the plaintiff. He said:

'If that question is determined in the affirmative, a Court of Equity in these cases is not content with an action for damages; for it is nearly impossible to know the extent of the damage; and therefore the remedy here, though not compensating the pecuniary damage except by an account of the profits, is the best: the remedy by an injunction and account.'²²

It is clear, since at least the decision of Lord Eldon, that an equity court has jurisdiction to grant an account of profits in industrial and

18 Stoljar, *supra* n 7 at 221.

19 For reasons alluded to at the conclusion of this article it is worth noting at this point that when considering the industrial and intellectual property area, it is arguable, although by no means settled, that an action for breach of confidence may be distinguished from actions for copyright infringement, registered design infringement, trademark infringement, passing off and patent infringement on the ground that breach of confidence is an equitable action whereas the other actions were, in their inception, actions for the infringement of a common law right: See Meagher, Gummow and Lehane, *supra* n 7, ch 41.

20 *Ibid* 630.

21 (1803) 8 Ves Jun 215, 32 ER 336.

22 *Ibid* 223, 339. See also Meagher, Gummow and Lehane, *supra* n 7 at 630 and Cornish, *Patents, Copyright, Trade Marks and Allied Rights* (1981) 55.

intellectual property litigation. Formerly, it was believed, as can be seen from the judgment of Lord Eldon quoted above, that relief in the form of account of profits could only be given ancillary to the injunction. It is sufficient to note for the time being that this is no longer necessarily the case. More detailed attention will be paid to this matter below.

Prior to the Judicature Acts²³ the various State Supreme Courts had jurisdiction in the equitable action of account and in the common law action. The equitable jurisdiction was inherited from the Court of Chancery.²⁴ The common law jurisdiction arose under the Common Law Procedure Acts.²⁵ Since the Judicature Acts any division of a State Supreme Court can order an account of profits.²⁶

3. GENERAL PRINCIPLES

(a) Introduction

Account of profits is one of two main types of pecuniary remedies given by the Courts. The other main type of pecuniary remedy is, of course, damages. That being so it is, perhaps, natural for commentators to remark upon the distinction between the two remedies. In *Colbeam Palmer Ltd and Another v Stock Affiliates Pty Limited*,²⁷ a trade mark case, Windeyer J said:

'The distinction between an account of profits and damages is that by the former the infringer is required to give up his ill-gotten gains to the party whose rights he has infringed: by the latter he is required to compensate the party wronged for the loss he has suffered.'²⁸

The relationship between these two orders is also important. Account of profits and damages are mutually exclusive. The plaintiff must elect one or the other. The House of Lords made it quite clear in *De Vitre v Betts*²⁹ that the remarks which it made upon this question in *Neilson v Betts*³⁰

'most undoubtedly decided the general principle that, upon a decree against a party for the infringement of a patent, the patentee is not entitled to both an account of profits

23 Supreme Court Act 1970 (NSW); Judicature Act 1876 (Qld); Supreme Court Act 1878 (SA); Supreme Court Civil Procedure Act 1903 (Tas); Supreme Court (Judicature) Act 1883 (Vic); Supreme Court Act 1880 (WA).

24 See, for example, Meagher, Gummow and Lehane, *supra* n 7 at 631.

25 Common Law Procedure Act 1853 (NSW) and Common Law Procedure Act 1857 (NSW); Common Law Practice Act 1867 (Qld); Supreme Court Procedure Act 1853 (SA); Common Law Procedure Act 1854 (Tas); Common Law Procedure Act 1855 (Tas); Common Law Procedure Act 1862 (Tas); Common Law Procedure Statute 1865 (Vic). These pieces of legislation and their successors are discussed in Castles, *An Australian Legal History* (1982) 350-354. See also Meagher, Gummow and Lehane, *ibid* 15-21.

26 See Supreme Court Act 1970 (NSW) and Supreme Court Rules Parts 48 and 49; Supreme Court Act 1921 (Qld) and Supreme Court Rules Order 37; Supreme Court Civil Procedure Act 1932 (Tas) and Supreme Court Rules Order 35; Supreme Court Act 1935 (SA) and Supreme Court Rules Order 33; Supreme Court Act 1958 (Vic) and Supreme Court Rules Order 33; Supreme Court Act 1935 (WA) and Supreme Court Rules Order 45.

27 (1968) 122 CLR 25.

28 *Ibid* 32.

29 (1873) LR 6 HL 319.

30 (1871) LR 5 HL 1.

and an enquiry into damages. That principle applies generally and without any distinction at all.³¹

Various reasons have been advanced as explanations of what is now an inflexible principle of the law in this area. One suggested rationale is that, were the plaintiff to get both an account of profits and damages, the plaintiff would be adopting a contradictory position because the plaintiff would be both adopting the defendant's acts and asking for compensation for them.³² This argument is based upon the words of Lord Westbury in *Neilson v Betts*. He said, when comparing damages and an account of profits, 'The two things are hardly reconcilable, for if you take an account of profits you condone the infringement'.³³ Another view is that the rationale behind the rule that the plaintiff may have either damages or account of profits, but not both, is simply that the defendant cannot be both reimbursed and compensated.³⁴ That view is consistent with the general distinction, drawn by Windeyer J in *Colbeam Palmer*³⁵ as previously quoted, between an account of profits and damages. It is also at least consistent with the view of Lord Cairns in *De Vitre v Betts*³⁶ that the plaintiff cannot have a 'double inquiry'. In so far as it is necessary to determine the most appropriate rationale for this rule of election, the latter view is probably preferable as it does not involve what is, arguably, a fiction. The important point, however, to note is that the plaintiff must elect one or the other. That being so, the next question raised is when will a successful plaintiff choose an account of profits? To state the position very generally, a plaintiff is most likely to elect to have an account of profits where the defendant made more money using the plaintiff's property or rights than the plaintiff could have done himself. This might occur, for example, where the capital structure of the defendant's business is much larger or the defendant made a much greater or more successful use of advertising. The answer to the question, however, also depends upon the 'quantum of profit' which the court fixes upon as being appropriate. This matter is considered below.

(b) The Remedy of Injunction

It is important to note that the choice of the remedy of account of profits may not always be open to the successful plaintiff. There are several other matters which may bar this choice. The first of these may be the availability of an injunction. The conventional view is that the right to an account of profits is dependant upon the right to an injunction, so that if the plaintiff is not entitled to an injunction he cannot have an account of profits.³⁷ In *Smith v London and South Western Railway Co*³⁸ an injunction was refused upon the ground of delay and thus an account of profits was not available. In *Price's Patent Candle Company*,

31 Supra n 29 at 32; per Lord Chelmsford.

32 This argument is also referred to in Skone-James, Mummery and Rayner James, *Copinger and Skone-James on Copyright* (12th edn 1980) 280 and Cornish, supra n 22 at 56.

33 Supra n 30 at 22. Quoted with approval by Lord Wright MR in *Sutherland Publishing Co v Caxton Publishing Co* [1936] Ch 323, 326.

34 See Cornish, supra n 22 at 56.

35 Supra n 27.

36 Supra n 29 at 325.

37 *Smith v The London and South Western Railway Co* (1854) Kay 408, 69 ER 173; *Price's Patent Candle Company, Limited v Bauwen's Patent Candle Company Limited* (1858) 4 K & J 727, 730, 70 ER 302, 303.

38 *Ibid.*

Limited v *Bauwen's Patent Candle Company, Limited*,³⁹ which concerned the infringement of a patent, Vice-Chancellor Sir W Page Wood expressed the view that there was 'good reason' for this rule, because since the taking of accounts could present such difficulties the courts should not assume jurisdiction to do so 'where it is not the right of the suitor to call for its exercise'. He held that an injunction could not be granted because it would be useless and thus the plaintiff was not entitled to an account of profits. The so-called 'reason' which the Vice-Chancellor gave for this rule is really more in the nature of an incidental benefit to the rule than a reason. In fact the reason for this rule seems to be that the present remedy of account is fettered by its equitable origins. This may perhaps be seen from the following passage:

'The mere fact that the defendant has committed a tort against the plaintiff will not entitle the latter to an account, yet, if the tort is of such a kind that the plaintiff can obtain an injunction to prevent its repetition or continuance, the plaintiff may invoke the principle that equity will always grant complete relief, and ask that the injunction be accompanied by an account of any profit that the defendant has derived from it.'⁴⁰

Thus it can be seen that a conception of the remedy of account of profits is that its function was merely to allow equity to give a complete remedy in a given situation. If this is correct, then the ability of a successful plaintiff to elect an account of profits obviously only arises if the court is prepared to grant an injunction. However, some doubt has been cast upon this principle by *Colbeam Palmer*.⁴¹ In that case Windeyer J was not prepared to grant an injunction but did allow the plaintiff to elect for an account of profits. Windeyer J acknowledged that under usual circumstances with respect to both general principle and s65 of the Trade Marks Act 1955 (Cth) the remedy of account of profits was to be awarded as ancillary to an injunction but that the circumstances of the particular case were unusual. The circumstances he was referring to here were the facts, first, that the plaintiff had, prior to the hearing, assigned the trade mark and when Windeyer J handed down his first judgment in this matter the assignee had not been joined; and, secondly, that the registration of the plaintiff's trade mark had expired. It was on these two grounds, principally the second, that Windeyer J refused to grant the injunction.⁴² Thus the injunction was not refused upon the ordinary general discretionary grounds upon which a court may refuse to order an injunction. *Colbeam Palmer* can probably be distinguished on this basis from the general run of cases. That is to say, *Colbeam Palmer* does not, it is argued, affect a situation where, for example, an injunction is refused because of laches or lack of 'clean hands'. What it does show, however, is that there is

39 Supra n 37.

40 Lawson, supra n 1 at 143. See also a similar statement in *Bailey v Taylor* 1 Russ and My 75, 75, 39 ER 28, 28 per Sir John Leach, quoted with approval by Sir W Page Wood VC in *Smith v The London and South Western Railway Co*(1854) Kay 408, 415; 69 ER 173, 176.

41 Supra n 27.

42 Ibid 31. By the time the second judgment in this matter was handed down, supra n 27 at 40-47, the assignee of the trade mark had been joined as a plaintiff and the trade mark registration had been renewed. In such circumstances Windeyer J was prepared to grant an injunction by consent in favour of the assignee: supra n 27 at 40-41.

no longer an inflexible principle that an account of profits *may only* be granted ancillary to an injunction.

(c) Discretionary Relief

If the rule in *Price's Patent Candle Company*⁴³ is still correct, at least with respect to injunctions refused on general discretionary grounds, then a plaintiff will clearly not be able to get an injunction and, therefore, will not be able to get an account of profits, where he has been guilty of laches or lack of clean hands, or where, as happened in *Price's Patent Candle Company*, an injunction would be useless. However, even without the rule in *Price's Patent Candle Company*, the plaintiff would be no better off with respect to the issues of laches and lack of clean hands. This is because the remedy of account of profits is, being an equitable remedy like the remedy of injunction, a discretionary remedy.⁴⁴ This is, of course, another point of distinction between the remedy of damages and the remedy of account of profits. The discretionary aspect of the remedy may, in certain cases, prohibit a successful plaintiff from electing for an account of profits.

One of the main ways in which this discretionary aspect has manifested itself is with respect to situations involving delay on the part of a plaintiff. In *Smith*⁴⁵ Sir W Page Wood VC said, with respect to cases involving infringement of patents and relying upon *Crossley v The Derby Gas Light Company*,⁴⁶

'that delay in cases of this description would be a considerable ground for refusing a decree of account, notwithstanding that an injunction had been obtained in that case, unless the delay could be satisfactorily explained'.⁴⁷

The rationale behind the delay criteria in this context appears to be that if the plaintiff does not sue more or less immediately he will be allowing the defendant to 'make his profits for him'.⁴⁸

A case in which delay on the part of the plaintiff limited the period during which profits for the purposes of an account of profits could be calculated is *Lever Brothers, Port Sunlight, Ltd v Sunniwhite Products, Ltd*.⁴⁹ This case involved an infringement of the plaintiff's trade mark 'Sunlight' which was registered 'in respect of soap, substances for laundry use, detergents and certain cosmetic goods'.⁵⁰ The infringement occurred when the defendant put out a soapless detergent under the name 'Sunniwhite' at the beginning of 1946. The plaintiff company became aware of the product in August 1946 but did not write to the defendant informing it of the plaintiff company's trade mark and asking it to cease the sale of 'Sunniwhite' laundry powder until 28 April 1947. The action

43 *Supra* n 37.

44 *Smith v The London and South-Western Railway Co* (1854) Kay 408, 69 ER 173; Lahore et al, *Intellectual Property in Australia* (1977), para 4.5.029; Jones, 'Restitution of Benefits Obtained in Breach of Another's Confidence' (1970) 86 LQR 463, 486-488; Ricketson, *Industrial and Intellectual Property*(1984) 21.

45 *Ibid.*

46 4 LJ (NS) Chanc 25. Sir W Page Wood VC expresses himself to be relying upon *Crossley v Beverley*. However, it appears that the case upon which he is actually relying is *Crossley v The Derby Gas Light Company*.

47 *Supra* n 44 at 416, 176.

48 *Supra* n 1 at 143.

49 (1949) 66 RPC 84.

50 *Ibid.*

was commenced by the issue of a writ on 12 June 1947. With respect to the question of the period during which profits should be calculated, the defendant argued that '[w]here the plaintiff in an action of this character has been aware that infringement has taken place, and a substantial period of time has taken place from that awareness before proceedings were taken, the account should date from the date of the complaint'.⁵¹ The plaintiff did not object to this and such an order was, accordingly, made.

This case raises two questions. First, why did the delay not present a complete bar to the remedy of account of profits; and, secondly, what, if any, is the general principle as to the way in which the delay will affect the relevant period for the taking of the account? The first of these matters is probably dealt with quite simply upon the basis that account of profits is a discretionary remedy. The delay in *Lever Brothers*⁵² was not a very substantial delay, only about eight months. The court was clearly of the view that this sort of delay was substantial enough to limit the remedy but not sufficiently substantial to bar it altogether. This leaves open the obvious speculation that had the delay been more extensive the courts may have refused the remedy entirely.⁵³ Consideration of other discretionary remedies, such as that of injunction, supports this view. For example, in *Smith*⁵⁴ the plaintiff, who discovered that several companies were infringing its patent, sued one of those companies but did not request any of the other infringers to stop infringing the patent. At trial the validity of the patent was disputed and it was not pronounced valid until three years after the patent had expired, at which time the plaintiff was awarded damages. The plaintiff then sought an account of profits and an injunction against another of the alleged infringers, alleging acts of infringement done nine years earlier. On the basis of the plaintiff's delay generally and the related fact that at the time the plaintiff commenced the original action it did not give the defendant any indication that it would be proceeded against, the court refused to grant the discretionary remedy of injunction (and, accordingly, regarded itself as unable to order an account of profits).

As stated earlier, the second question raised by the case is that of the way in which the delay limits the period during which the account is to be taken. In *Lever Brothers*⁵⁵ the account ran only from the time of complaint, the delay having occurred between the plaintiff's being aware of the defendant's activities and sending the letter of complaint in order to initiate an action. Thus the period which the court is refusing to include in the calculation of the account is the period of delay.

(d) Knowledge

Another matter of importance in this area is knowledge on the part of the defendant. In *Colbeam Palmer Windeyer J* said:

51 *Ibid* 102.

52 *Ibid*.

53 For a case in which this happened see, for example, *Electrolux Ld v Electrix Ld* (1953) 70 RPC 158. It is interesting to note in this respect that in *Colbeam Palmer* there appears to be a delay on the part of the plaintiff of approximately four years. However, Windeyer J rejected the contention of the defendant that this delay on the part of the plaintiff barred its claim: *supra* n 27 at 33.

54 *Supra* n 44.

55 *Supra* n 49.

'the account of profits retains the characteristics of its origin in the Court of Chancery. By it a defendant is made to account for, and is then stripped of, profits he has made which it would be unconscionable that he retain. These are profits made by him dishonestly, that is by his knowingly infringing the rights of the proprietor of the trade mark. This explains why the liability to account is still not necessarily co-extensive with acts of infringement. The account is limited to the profits made by the defendant during the period when he knew of the plaintiff's rights.'⁵⁶

Thus, lack of relevant knowledge on the part of the defendant may be another matter which bars a plaintiff's right to elect an account of profits in industrial or intellectual property litigation, particularly as the onus of proving knowledge on the part of the defendant rests with the plaintiff.⁵⁷ *Moet v Couston*,⁵⁸ a passing off case, is an example of a situation in which the court refused an account of profits because, although the defendant infringed the plaintiff's rights by selling 'Moet's Champagne', it had done so quite innocently.

In most areas of law where knowledge on the part of someone is a relevant consideration, difficult issues arise as to, first, exactly what it is the person must know and, secondly, the relevance of 'constructive knowledge' or 'constructive notice'. The remedy of account of profits is no exception to this generalisation. In relation to the first of these issues, Windeyer J in *Colbeam Palmer*⁵⁹ refers to the defendant's knowing of the 'plaintiff's rights'.⁶⁰ So in that case, which involved a trade mark infringement, the mere fact that the managing director of the defendant company was aware of the fact that the plaintiff was marketing goods under the same name as the defendant was marketing them did not result in either his or his company's being regarded as having relevant knowledge for the purposes of account of profits. Rather the defendant was regarded as having relevant knowledge when it was actually informed that the plaintiff had a registered trade mark. This position appears to be supported by *Edward Young & Co v Stanley Silverwood Holt*⁶¹ in which Wynn Parry J formulates the question of fact in the case as follows: '[A]s from what date the Defendant can be said to have known or to have been in a position to have known that the plaintiffs had a mark which they had used'.⁶² Unfortunately, within the industrial and intellectual property area these cases are only simple to apply with respect to those categories of property in which a right is created in a person by registration. The relevant categories here are trade marks, registered designs and patents. In all of those categories the application of the above cases seems relatively straightforward. A defendant does not have knowledge necessary to make it accountable for its profits in an action in one of those three categories if that defendant is merely aware that the plaintiff

56 *Supra* n 27 at 34. See also *Edelsten v Edelsten* *infra* n 137 at 199, 78; *Moet v Couston* (1864) 33 Beav 578, 580, 55 ER 493, 494; *AG Spalding and Bros v AW Gamage Ltd* (1915) 32 RPC 273, 283.

57 *Colbeam Palmer*, *supra* n 27 at 35.

58 (1864) 33 Beav 578, 55 ER 493.

59 *Supra* n 27.

60 See the quoted passage *supra* at n 56.

61 (1948) 65 RPC 25.

62 *Ibid* 20. See also *Moet v Couston* *supra* n 56.

had been using the same invention (patents), using something complying with the same design (registered designs) or selling goods under the same name (trade marks). The defendant must have knowledge of the 'right', and, therefore, of the relevant registration. However, this principle does not translate so easily to the areas of passing off and breaches of confidence. There seems to be no reason why the rule itself would be different; that is, the rule remains that what the defendant must know about are the plaintiff's rights. However, there appears to be no clear distinction in the categories of passing off and breach of confidence between knowing of the plaintiff's activities and knowing of its rights. For example, in the area of passing off, if A represents goods to be goods of B by selling similar goods under the same name then it appears that there is no relevant difference between A's knowing of B's activities and A's knowing of B's rights. Likewise, it is clear from the case of *Coco v A N Clark (Engineers) Ltd*⁶³ that an element of the action of breach of confidence is that the person in whom the confidence was reposed knew that the matter was confidential and that that confidential information (at least by implication) was knowingly used in breach of confidence.⁶⁴ With respect to the question of knowledge in regard to an account for infringement of copyright, see Part 4 of this article.

(c) Constructive Knowledge

The second issue with respect to relevant knowledge in this area is that of constructive knowledge. The first thing to note here, at least with respect to trade marks, is that the fact of registration appears not to fix persons with constructive knowledge.⁶⁵ Patents and designs also involve a process of registration and the reasoning with respect to the relevance of the registration of trade marks would seem to extend into these areas. The concept of constructive knowledge, however, does have some application in this field. *Edward Young*⁶⁶ was a passing off case in which the defendant alleged that he did not know of the plaintiff's name. Wynn Parry J referred to a passage from *A G Spalding and Bros v A W Gammage Ltd*⁶⁷ in which Lord Parker of Waddington said 'the complete innocence of the party making [the representation complained of] may be a reason for limiting the account of profits to the period subsequent to the date at which he becomes aware of the profits to the period subsequent to the date at which he becomes aware of the true facts'. Wynn Parry J said:

'I take the view that...in that context the word 'innocence' is not synonymous with 'ignorance'. In certain circumstances

63 [1969] RPC 41.

64 A contrary view has been advanced by Cornish, supra n 22, who suggests that the case of *Seager v Copydex Ltd*[1967] 2 All ER 415, a breach of confidence case, may well be an example of a court refusing, inter alia, an account of profits because of the innocence of the defendants. If this is correct then it appears that if one has confidential information reposed in one, realising at the time the information is given that it is confidential, and subsequently one uses the confidential information without realising that one is doing so then one would not be liable to an account of profits on the ground of innocence. It is submitted that this view is somewhat unrealistic and probably untenable.

65 *Slazenger and Sons v Spalding and Bros*[1910] 1 Ch 257, 261. The decision in *Colbeam Palmer* supra n 27 is consistent with this proposition.

66 Supra n 61.

67 Supra n 56.

a man may be ignorant but may not, within the meaning of that phrase, be completely innocent.⁶⁸

The plaintiff in this case argued that the mere similarity of the names raised a presumption that the defendant was not innocent. While it appears that it was unnecessary for Wynn Parry J to come to a definite decision on this argument he did observe that the thing that militated against that argument was that if the defendant was aware of the plaintiff's name, the name the defendant chose 'must rank as one of the most clumsy efforts by a man who intended to pass off his goods as the goods of another'.⁶⁹ On the other hand Wynn Parry J gave significance to the fact that, taking into account the defendant's extensive experience in the wine and spirit trade (he had been involved in the wine and spirit trade all his working life although until the matters which gave rise to the action he had been involved primarily in the distilling and blending of whisky) he had made no enquiries such as searching in certain trade journals or in any other materials which would contain a list of brand names to check that 'he would not be infringing the rights of any other trader'.⁷⁰ Wynn Parry J said: 'I do not acquit him of a certain lack of care which I think he ought to have exercised'.⁷¹ Even if this view were not correct there was no doubt, according to Wynn Parry J, that after the defendant received an enquiry as to whether 'Mencoza' was a typographical error for 'Mendoza', 'he was put upon his enquiry to make certain, before he proceeded any further in the matter, that he was not infringing the rights of the owner of this brand name 'Mendoza', to which his attention was so clearly called...' by the enquiry.⁷² The account of profits accordingly was not limited in time but the defendant was ordered to account for all profits made in selling sherry bearing the name 'Mencoza & Coy'.⁷³

Another case in which the concept of constructive knowledge was discussed was *Colbeam Palmer*.⁷⁴ Windeyer J was satisfied in that case that, prior to receiving a letter from the plaintiff in August 1965, the defendant did not actually know of the plaintiff's rights.⁷⁵ He went on to say:

'It may be that he did not before 1965 make all the enquiries that a more prudent person in his position might have made, and that he was...in that sense remiss. But a lack of diligence in inquiry does not turn ignorance into knowledge. Dishonesty is not to be inferred from lack of care. This is not a case of 'wilful blindness', the expression used in another context to describe the deliberate abstaining from inquiry for fear of what inquiry may reveal.'⁷⁶

Windeyer J was also of the view that the plaintiff bore some responsibility for the defendant's ignorance since it took some time to assert its rights.⁷⁷

68 *Supra* n 61 at 20.

69 *Ibid* 27.

70 *Ibid*.

71 *Ibid*.

72 *Ibid* 29.

73 *Ibid* 32-33.

74 *Supra* n 27.

75 *Ibid* 32.

76 *Ibid* 32-33.

77 *Ibid* 33.

These cases, which are representative of judicial discussion of the concept of constructive knowledge with respect to account of profits in the industrial and intellectual property area, do not appear to be wholly reconcilable. It is possible to explain on the facts of the case why the court did not consider that the defendant in *Colbeam Palmer*⁷⁸ was put upon notice by its knowledge of the fact that the plaintiff was selling paint sets under the same name as those of the defendant. This was because the defendant in *Colbeam Palmer* was in fact a wholesale supplier of the goods in question which it had imported from an American company. When the defendant became aware that the plaintiff was manufacturing and selling goods under the same name as those the defendant was selling it informed its American supplier. The American supplier replied by saying, in effect, that the plaintiff had a right to be in the market and while the result of that was confusing and undesirable, the task of the defendant was to force the plaintiff out by destroying the plaintiff's market. The defendant company took this to mean that there was no reason why each company could not use the name 'Craftmaster'. Clearly if Windeyer J regarded the defendant company as being put on notice it is just as clear that he was of the view that they had discharged their duty to inquire. While this explanation deals with the fact that the defendant in *Edward Young*⁷⁹ would (even if the court was not of the view that he already had constructive knowledge) have had constructive knowledge of the plaintiff's rights after the enquiry about the typographical error, while the defendant in *Colbeam Palmer* did not become constructively knowledgeable of the plaintiff's rights after he became aware that there was another brand of the same name, it does not completely reconcile the cases. *Edward Young* seems to place a greater initial responsibility upon new entrants to a market to check that they are not infringing the rights of others than does *Colbeam Palmer*. Perhaps this is explicable on the basis of the emphasis in *Edward Young* upon the defendant's knowledge of the trade, that of the sale of wine and spirits, and that this very trade was easily identifiable and discrete. One could not, perhaps, argue that that sale of painting sets (the relevant goods in *Colbeam Palmer*) represents a particularly discrete or esoteric area of endeavour. A basis, it is submitted, upon which the cases are not distinguishable is that *Edward Young* is a passing off case and *Colbeam Palmer* is an infringement of trade mark case. Windeyer J made it quite clear in *Colbeam Palmer* that he would not draw such a distinction.⁸⁰ It is noted that to the extent that the two decisions are not reconcilable, *Colbeam Palmer* is a decision of the Australian High Court and thus preferable authority in Australia.

4. STATUTORY MODIFICATIONS

The simplest statutory provision to deal with within the area of industrial and intellectual property is s65 of the Trade Marks Act 1955 (Cth).⁸¹

78 *Supra* n 27.

79 *Supra* n 61.

80 *Supra* n 27 at 32.

81 Section 65 of the Trade Marks Act 1955 (Cth) provides

'The relief which a court may grant in an action or proceeding for infringement of a registered trade mark includes an injunction (subject to such terms, if any, as the court thinks fit) and, except in the case of a trade mark registered in Part C of the Register, at the option of the plaintiff, either damages or an account of profits.'

The section is cast inclusively rather than exclusively. It allows a successful plaintiff to be granted an injunction and to elect for either damages or for an account of profits. The only exception to the availability of damages or an account of profits is where the relevant mark is registered under Part C of the register. (Part C contains certification trade marks⁸² which are governed by Part XI of the Act.⁸³) It appears that s65 does not vary from the case law position. In *Colbeam Palmer Windeyer J* considered that the section did not enlarge the scope of account of profits. He went on to say:

‘The effect of s.65 is to make expressly available in the case of infringement of a registered trade mark the same remedies and relief as can be had in a passing off action in the case of a common law trade mark.’⁸⁴

The situation with respect to patents is dealt with by s118(1) of the Patents Act 1952 (Cth).⁸⁵ This section is identical with s65 of the Trade Marks Act 1955 (Cth), except for the reference in s65 to trade marks registered in Part C of the Register. Thus principles of statutory construction, not to mention common sense, would suggest that s118(1) is to be regarded in more or less the same light as s65. However, since s118(1) has not generated any (reported) explicit judicial pronouncement such as that in *Colbeam Palmer* (referred to above) on the effect of the statutory remedy on the common law position it is as well to take note of several aspects of s118(1). First, the use of the word ‘may’ in the phrase ‘The relief which a court may grant’ emphasizes the discretionary nature of the remedies referred to in the section.⁸⁶ Thus the matters relevant to the court’s discretion discussed above are still relevant to this remedy. Secondly, the subsection seems to be saying that the remedy which the court may grant is an injunction and either damages or an account of profits. A reasonable interpretation of such wording would be that under the sub-section the court may grant damages or account of profits only if it grants an injunction. However, if reference is made to s65 of the Trade Marks Act 1955 (Cth) and its application in *Colbeam Palmer*, it will be seen that Windeyer J did not interpret the identical words of s65 to mean this, although, as discussed above, he may have been saying that an account of profits can be granted without an injunction only in exceptional circumstances. Thirdly, it is clear that, as under case law, damages and account of profits are alternative remedies.

While s118(1) of the Patents Act 1952 (Cth) is almost identical to s65 of the Trade Marks Act 1955 (Cth), the Patents Act differs from the Trade Marks Act in this area because it makes provision to exempt an innocent infringer from liability for damages or account of profits in

82 Trade Marks Act 1955 (Cth) s83(1).

83 There is a brief description of Part C trade marks in Kercher and Noone, *Remedies* (1983) 294.

84 *Supra* n 27 at 31-32. See also Lahore, Dwyer, Garnsey and Dufty, *Intellectual Property in Australia (Patents, Designs and Trade Marks)* (Vol 1, Looseleaf 1984 to date) para 4.5.029.

85 Section 118(1) of the Patents Act 1952 (Cth) provides:

‘The relief which a court may grant in an action or proceeding for infringement of a patent includes an injunction (subject to such terms, if any, as the court thinks fit) and, at the option of the plaintiff, either damages or an account of profits.’

86 Ricketson, *supra* n 44 at 24.

s124.⁸⁷ There are several points to note about this section: first, in ss(1) the word 'may' in the phrase 'A court may refuse' indicates that the court has a discretion; it seems that a court is entitled to grant an account of profits under this section even if it believes an infringer is, for the purposes of the section, innocent.⁸⁸ It is suggested that this provision may reflect the fact that the ignorance defence under case law was originally one aspect of the court's discretion. (However, the principle, it seems, has become much more rigid under case law and it is submitted that in an action, such as an action for passing off which is not governed by statute, a court should regard itself as being disentitled to award an account of profits against an innocent infringer.) The second point to note in respect of s124 is that the words 'had no reason to believe' in ss(1) import the notion of constructive knowledge into the section. The Act contains no indication that the register of patents would constitute constructive knowledge and thus there appears no reason, in the light of the cases discussed above⁸⁹ which provide that the Trade Marks Register does not constitute constructive notice, to assert that it does. Sub-section (2), however, does refer to a matter which will constitute constructive knowledge. Under that sub-section if articles manufactured pursuant to a patent are so marked to indicate they are patented in Australia and they have been sold or used in Australia to a substantial extent the defendant will be deemed to be aware of the patent. This is stated to be subject to the defendant's proving to the contrary. It is quite clear that constructive notice of a patent can be received pursuant to ss(1) in a manner other than that mentioned in ss(2).

The remedies for infringement of a registered design are dealt with by s32B of the Designs Act 1906 (Cth).⁹⁰ This section, it can be seen, contains both the permissible relief and the ignorance defence. As with the Trade Marks Act and Patents Act, ss(1) which lists the relief which may be granted is cast in permissive terms, that is the use of the word 'may' shows that that grant of relief is discretionary. Also, as with the

87 Section 124 of the Patents Act 1952 (Cth) provides:

- (1) A court may refuse to award damages, or to make an order for an account of profits, in respect of an infringement of a patent committed after the date of commencement of this Act from a defendant who satisfies the court that, at the date of the infringement, he was not aware, and had no reason to believe, that a patent for the invention existed.
- (2) If articles manufactured according to a patented invention and marked in such a manner as to indicate that the articles are patented in Australia have been sold or used in Australia to a substantial extent, the defendant shall be deemed, unless the contrary is proved, to have been aware of the existence of the patent.
- (3) Nothing in this section affects the power of a court to grant relief by way of an injunction.'

88 See also Ricketson, *supra* n 44 at 24.

89 See the cases referred to, *supra* n 65.

90 Section 32B provides:

- (1) The relief that a court may grant in an action or proceeding for the infringement of the monopoly in a registered design includes an injunction (subject to such terms, if any, as the court thinks fit) and, at the option of the plaintiff, either damages or an account of profits.'
- (2) A court may refuse to award damages, or to make an order for an account of profits, in respect of an infringement of the monopoly in a registered design if the defendant satisfies the court
 - (a) that, at the time of the infringement, he was not aware that the design was registered; and
 - (b) that he had, prior to that time, taken all reasonable steps to ascertain whether a monopoly in the design existed.'

other statutory provisions considered, the permissible relief is an injunction and either damages or account of profits. For reasons alluded to earlier, this form of words appears not to necessarily require the award of an injunction as a prerequisite to damages or an account of profits. Also, once again, the case law is reflected in the fact that damages and account of profits are alternative remedies to be elected by the plaintiff. Sub-section (2) of s32B governs the ignorance defence. Paragraph (a) appears to refer to actual knowledge of the existence of a registered design at the time of infringement. Paragraph (b), on the other hand, appears to refer to constructive knowledge. However, the language of paragraph (b) is such, it is submitted, as to make it quite different from the constructive notice provisions in the Patents Act. It will be recalled that s124(1) of the Patents Act provides that a defendant may be protected where he is not aware and had no reason to believe that a patent for the invention existed. Under this sub-section it seems that the defendant will only have constructive notice imputed to him if some information comes to him with respect to the registration of the patent. In contrast ss(2)(b) of s32B of the Designs Act requires the defendant before he is entitled to protection to prove in addition to the matters referred to in paragraph (a) that he took 'all reasonable steps' to ascertain whether a monopoly in the design existed.⁹¹ In other words it seems to require positive action on the part of the defendant to seek out the relevant information. This, of course, appears to be very similar to the requirements for exculpation from liability placed upon the defendant in *Edward Young*⁹² in which Wynn Parry J was of the view that the defendant being a man of experience in the trade should have made enquiries to check that he was not infringing the rights of anyone else. In that light then, what are 'all reasonable steps' referred to in s32B(2)(b) of the Designs Act? One would have thought that an eminently reasonable step would be to search the register of designs. This register is always open to the public on the payment of a prescribed fee⁹³ and contains, inter alia, particulars of all registered designs and the dates of registration and expiry.⁹⁴ However, if this was the intention of the Act then why would the defence even be included? That is, if registration is equal to constructive knowledge and relief is only available in respect of registered designs then whenever there is entitlement to relief there is constructive knowledge and the defendant cannot rely on lack thereof to save himself from liability to pay damages or to account for profits. Perhaps then, what is reasonable depends upon, as it appeared to do in *Edward Young*, the particular defendant. For example, if the defendant is someone with lengthy experience in the area of manufacturing and marketing and has registered many designs, then a reasonable step for that person might be to check the register. If, on the other hand, the person is someone who has just started up in a very small business and is not aware of the existence of such a thing as a registered design, then the weight of proving that reasonable steps have been taken will be less heavy. For a person who

91 The use of the phrase 'monopoly in the design' means that the design is registered: Designs Act 1906 (Cth) s25.

92 Supra n 61. See text supra at nn 66-73.

93 Designs Act 1906 (Cth) s35.

94 Ibid s33(a). See also s27(1). This does not appear to be affected by s40F, even in the relatively limited area in which s40F applies, because s40F applies to restrictions of information with respect to application for registration of a design.

falls between these two extremes, reasonable steps would perhaps mean, as they did in *Edward Young*, consulting trade journals or some type of materials which indicate the existence of designs belonging to somebody else. There appear to be no reported cases which shed light on what is meant by 'all reasonable steps' in s32B(1)(b) of the Designs Act 1906.

Section 115(2) of the Copyright Act 1968 (Cth) governs the relief available in an action for an infringement of copyright.⁹⁵ The sub-section is the same in substance as s65 of the Trade Marks Act 1955 (Cth), s118(1) of the Patents Act 1952 (Cth) and s32B(1) of the Designs Act 1906 (Cth) and the remarks made with respect to all those sections apply, mutatis mutandis, to s115(2) of the Copyright Act. The interesting provision of the Copyright Act is that which allows for partial exculpation for an infringer upon the ground of his lack of knowledge. This provision is contained in s115(3).⁹⁶ This sub-section provides that where an infringer can establish that he was not aware and had no reasonable grounds for suspecting that his infringing act was a breach of copyright then the plaintiff is disentitled to damages. For the purpose of the present examination it is unnecessary to consider what constitutes 'reasonable grounds for suspecting' since the sub-section does not disentitle the plaintiff to an account of profits; in fact, it does quite the opposite. The sub-section provides that the plaintiff is 'entitled' to an account of profits whether any other relief is granted under s115 or not. Ricketson has remarked that the use of 'The word 'entitled' is oddly at variance with the discretionary nature of the account remedy'.⁹⁷ Not only that, its use also seems to create an absurdity since it appears, due to the use of the word 'may' in s115(2), that in normal circumstances the grant of an account of profits is discretionary; however, if the defendant is not aware and had no reasonable grounds for suspecting that his act constituted an infringement of copyright then the plaintiff is 'entitled' to an account of profits. This peculiarity has led to the assertion that the use of the word 'entitled' does not oust the discretion of the court to refuse an account of profits upon ordinary discretionary grounds:⁹⁸ a suggestion which seems reasonable, even if unsupported by the words of the section.

5. TAKING THE ACCOUNT

(a) Procedural Aspects

In *Leplastrier and Co Ltd v Armstrong Holland Ltd*⁹⁹ both procedural

95 Section 115(2) of the Copyright Act 1968 (Cth) provides:

'Subject to this Act, the relief that a court may grant in an action for an infringement of copyright includes an injunction (subject to such terms, if any, as the court thinks fit) and either damages or an account of profits.'

96 Section 115(3) of the Copyright Act 1968 (Cth) provides:

'Where, in an action for infringement of copyright, it is established that an infringement was committed but it is also established that, at the time of the infringement, the defendant was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement of the copyright, the plaintiff is not entitled under this section to any damages against the defendant in respect of the infringement, but is entitled to an account of profits in respect of the infringement whether any other relief is granted under this section or not.'

97 *Supra* n 44 at 24-25.

98 Laddie, Prescott and Vitoria, *The Modern Law of Copyright* (1980) 418. See also Ricketson, *supra* n 44 at 25.

99 (1926) 26 SR (NSW) 585.

and substantive matters relating to the way in which an account was to be taken came before the Court on a reference from the Master. This case involved the infringement of a patent with respect to concrete mixing machines and it provides an example of the matters which may be required to be stated and served on the other party. The Master in taking the account had required the defendant to file and serve on the plaintiff a statement including:

- (1) a statement of the distinguishing number of the machines sold;
- (2) the prices of the machines sold;
- (3) the works cost of the manufacture of the machines including a statement of the cost of labour and material and reasonable particulars of other expenses;
- (4) reasonable prices of other costs, and
- (5) an account of royalties.¹⁰⁰

The court appears to have approved the Master's requiring this statement. Another example of a statement which may be required to be filed by the defendant was in *Colbeam Palmer*¹⁰¹ where Windeyer J directed the defendant to file, in addition to the other things required of him, 'a statement showing, in respect of the said profits in each of the said periods, how much, if any, thereof it admits was attributable to its use of the trade mark Craftmaster and stating the basis of the apportionment'.

Another matter which is probably correctly categorised as a matter of procedure which rose in *Leplastrier*¹⁰² was the ruling by Harvey CJ that the account must be framed in such a manner as to indicate the profit on each machine¹⁰³ since 'Every sale of a machine gives the plaintiff a separate right to recover profits made on the sale of that machine'.¹⁰⁴ One of the errors in the accounts filed by the defendants in that case was that net profits were worked out in six monthly periods so that losses and profits made on the machine in the relevant six monthly period were set-off against each other to give a total net profit (or net loss). Part of this net profit or loss was then apportioned to the plaintiff's machine and the amounts for all six monthly periods were set off against each other resulting in a net loss on the sale of the plaintiff's machine of 172 pounds 16s 10d. This procedure, the Court said, was fundamentally flawed. The plaintiff is entitled, as stated above, to the profits on each machine and to profits only. Losses over a certain period should not be set off against the profits of that period. Harvey CJ said:

'I think the fundamental fallacy of the account which has been filed by the defendant is this, that he assumes that what he has got to show are the profits of a business...He is not asked what profits he has made, taking as a whole the period during which he had been carrying on the making of those machines, what he asked was the profits he

¹⁰⁰ Ibid 587.

¹⁰¹ Supra n 27 at 46.

¹⁰² Supra n 99.

¹⁰³ Ibid 593.

¹⁰⁴ Ibid 591.

had made by the sale of the machines infringing the plaintiff's patent.¹⁰⁵

(b) Costs

The costs of the inquiry for the account of profits are normally reserved until after the account is taken.¹⁰⁶ In *Slack v Midland Railway Company*¹⁰⁷ Fry J said that not only was this the usual practice but was a 'very good practice...in order that the judge before whom the inquiry is conducted may have full control over the costs, and see that they are not unreasonably exaggerated'.¹⁰⁸ The general principle appears to be that the burden of costs will fall upon the defendant; however, that general principle can easily be displaced. For example, in *Colbeam Palmer*¹⁰⁹ the defendant made a settlement offer of \$1300 which, if not accepted by the plaintiff, would be relevant to the determination of costs by Windeyer J.¹¹⁰ In *Blackie & Sons Ltd v The Lothian Book Publishing Co Pty Ltd*,¹¹¹ a copyright case in which a very small part of the defendant's book was copied from the plaintiff's book, Starke J said that the plaintiff may have an enquiry as to damages at his own risk as to costs but it would be preferable for him to waive it.¹¹² The implication was that the amount would be too small to justify the enquiry and in such a circumstance the burden of costs would be shifted to the plaintiff. This reasoning applies also to an enquiry as to account of profits¹¹³ although, where an account of profits would yield only a very small amount, the account would probably not be ordered in the first place.¹¹⁴

6. CALCULATION OF 'PROFIT'

The area of calculation of profit seeks to deal with the issue of what are the relevant 'profits' for the purpose of account of profits. It is, arguably, the aspect of the remedy of account of profits which is most troublesome. The preliminary difficulty rests upon the very meaning of the word 'profit'. As Windeyer J pointed out in *Colbeam Palmer*:¹¹⁵ 'In modern economic theory the profit of an enterprise is a debatable concept. Consequently the word 'profit' has today varying senses in the vocabulary of economists.' The other problem is that the 'quantum' of profits may vary depending on the type of intellectual or industrial property right with which one is dealing. It is proposed to deal with these two problems, in so far as they can be separated, in reverse order.

105 Ibid. See also *Delf v Delamotte* (1857) 3 Jur NS 933, which was relied upon by Harvey CJ in *Dubiner v Cheerio Toys and Games Ltd* (1966) 55 DLR (2d) 420, 433-434.

106 See, for example, *Colbeam Palmer*, supra n 27.

107 (1880) :6 Ch D 81.

108 Ibid 81-82.

109 Supra n 27.

110 Supra n 27 at 46.

111 (1924) 29 CLR 396.

112 Ibid 404.

113 *Colbeam Palmer*, supra n 27 at 36.

114 This matter is referred to by Windeyer J in *Colbeam Palmer*, supra n 27 at 36. It probably represents another aspect of the discretion of the court exercised on the basis that equity will not make a useless order.

115 Supra n 27 at 37.

(a) Quantum of Profits

(i) Patents

In *Colbeam Palmer* Windeyer J, in the process of drawing a distinction between patent cases and trade mark cases, said:

'If the infringer of a patent sells an article made wholly in accordance with the invention and thereby obtains more than it cost him to make or acquire it, he is accountable for the difference as profit. That is because he has infringed the patentee's monopoly right to make, use, exercise and vend the invention.'¹¹⁶

Leaving aside the question of what constitutes profit, this seems to be a reasonable formulation for a patent case in which the article sold is made wholly in accordance with the invention. But what about, for example, a situation where only part of the article is made in accordance with the patent?

This was the situation in *Lepastryer*¹¹⁷ in which the article being sold was the plaintiff's invention with various attachments. The court said (and it would appear to be clear) that the plaintiff cannot 'fairly claim any portion of those extra attachments as included in the profits which he is entitled to claim by virtue of his being entitled to profits on the machine made in accordance with the invention'.¹¹⁸

Arguably, however, if the attachments would not have been marketable items without being attached to the plaintiff's patented machine then the plaintiff would have been entitled to the whole profits on the sales since the defendant would have made nothing without the infringement.

Another possible situation is a situation where the defendant uses a patented item of the plaintiff in, for example, a manufacturing process. In *The United Horse-Shoe and Nail Company Limited v John Stewart & Co*¹¹⁹ the patentee claimed as damages the profits made by the unauthorised use of patented machinery to manufacture horse-shoe nails. Lord Watson said in that case:

'When a patentee elects to claim the profits made by the unauthorised use of his machinery, it becomes material to ascertain how much of his invention was actually appropriated, in order to determine what proportion of the net profits realised by the infringer was attributable to its use. It would be unreasonable to give the patentee profits which were not earned by the use of his invention.'¹²⁰

However, the true quantum of profits in such a situation may well also depend upon whether or not there was any other item which the defendants could have used. If there was, then the quantum of profits will be based on a comparison of profitability using the plaintiff's invention with profitability under an alternative that the defendants were likely to

116 *Ibid.*

117 *Supra* n 99.

118 *Ibid* 590.

119 (1888) 13 App Cas 401.

120 *Ibid* 412-413.

use looking at all the circumstances of the case.¹²¹ So, in *Sidell v Vickers*¹²² there was a comparison, it seems, between the use of the plaintiff's steam powered invention and some other steam powered invention which the defendants could have used. The court rejected the contention that because the defendants had been using manual labour immediately prior to using the plaintiff's invention the correct comparison was between manual labour and the plaintiff's steam powered invention. They accepted the argument of the defendant that if it had not used the plaintiff's invention it would have mechanised and used some other steam powered invention and thus steam versus steam was the correct basis of comparison. Of course, if there was no other steam powered invention then the comparison would necessarily be between steam and manual. But what will be the position where there was nothing else which could be used but the plaintiff's invention? Then, it seems on parity of reasoning from *Peter Pan Manufacturing Corp v Corsets Silhouette Ltd*¹²³ (discussed below) that all of the profits should belong to the plaintiff because the article in question could not be made at all without the plaintiff's machine. This is notwithstanding the fact that the defendant has made much greater profits out of the invention than the plaintiff could have done.

(ii) *Trade Marks*

With respect to the question of the quantum of profits in the case of an infringement of a trade mark, Windeyer J in *Colbeam Palmer* said that:

'[I]nfringement consists in the unauthorised use of the mark in the course of trade in relation to goods in respect of which it is registered. The profit for which the infringer of a trade mark must account is thus not the profit he made from selling the article itself, but, the profit made in selling it under the trade mark.'¹²⁴

He later said that the reason behind this, relying upon *Smith Kline and French Laboratories (Australia) Ltd v Registrar of Trade Marks*,¹²⁵ was that a trade mark is something quite distinct from the goods in relation to which it is used.¹²⁶ It was clear in *Colbeam Palmer* that the painting sets in question could have been made and sold without the use of the word 'Craftmaster'. Windeyer J distinguishes these facts from a hypothetical situation where the goods had acquired such a reputation under the name 'Craftmaster' that that was the reason they had sold. With respect to the latter situation he seems to adopt (in an obiter dictum only) the views of the Court in *Hamilton-Brown Shoe Co v Wolf Bros & Co*¹²⁷ in which it was said that where it was inherently impossible to determine how much of the profits are attributable to the use of the

121 *Sidell v Vickers* (1892) 9 RPC 152.

122 *Ibid.*

123 *Peter Pan Manufacturing Corp v Corsets Silhouette Ltd*[1963] RPC 45, 57. Windeyer J in *Colbeam Palmer* gives some precedent for using decisions from one of the industrial and intellectual property areas in another industrial and intellectual property area: see supra n 27. See also, on this point Slade J in *My Kinda Town Ltd (Trading as Chicago Pizza Pie Factory) v Soll*[1982] 8 FSR 147.

124 *Supra* n 27 at 37.

125 (1967) 41 ALJR 221.

126 *Supra* n 27 at 42.

127 (1915) 240 US 251.

improper mark and how much are attributable to the intrinsic quality of the goods then the plaintiff is entitled to the whole profit. However, the facts in *Colbeam Palmer* did not disclose such a case, and thus, placing reliance on a statement of Frankfurter J in *Mishawaka Rubber & Woollen Manufacturing Co v SS Kresge Co*,¹²⁸ Windeyer J held that if the defendant can show that some sales were due to the intrinsic merit of the painting sets, and the onus of establishing this is upon the defendant, then the plaintiff will not be entitled to profits from this sale. Thus relying on *Sidell v Vickers*¹²⁹ he said that one must compare what profit the defendant made using the trade mark, with what profit, looking at all the circumstances of the case, he would most likely have made otherwise.¹³⁰ Applying that to the facts of *Colbeam Palmer* the defendants would have been able to sell the painting sets without the mark if it had obliterated the mark (which would have cost money). Thus the true quantum of profits will be derived by subtracting the profit the defendant would have made had it done this from the profit it did make and that will be the amount due to the use of the mark, which in turn equals the amount for which the defendant is liable to account. At least one variable in this highly unsatisfactory calculation is that it is extremely difficult to say how far sales would drop if the name Craftmaster had been obliterated.

*Dubiner v Cheerio Toys & Games Ltd*¹³¹ perhaps sheds some light on this confused and confusing quantum of profit. In that case the plaintiff argued that he was

‘entitled to all of the profits made by the defendant during the accounting period, because it is the goodwill of the trade marks that the defendant has obtained and that he has traded upon, whereas the latter maintains that the plaintiff is only entitled to that portion of such profits directly attributable to the use of the plaintiff’s trade marks’.¹³²

It was held on the basis of *Cartier v Carlisle*¹³³ that the argument of the defendant was correct. The court had then to set about the difficult task of deciding what portion of the defendant’s profits were attributable to the use by him of the plaintiff’s trade marks. The court appears to approve the procedure used by the Deputy-Registrar, who took into consideration a number of things including: the value placed by the president of the defendant company on the plaintiff’s trade marks when he executed an agreement which had permitted the defendant to use the plaintiff’s trade mark for a certain time; the evidence of that same president in cross examination; ‘the fact that the defendant used its own trade marks during the accounting period and the way in which it used them’; ‘the significance of the sales achieved by the defendant during its promotion campaign in St John’s Newfoundland, in November, 1964, which counsel for the defendant submitted was the first promotion campaign conducted by the defendant without the use of any of the

128 (1942) 316 US 203.

129 *Supra* n 121.

130 *Supra* n 27 at 46.

131 (1966) 55 DLR (2d) 420.

132 *Ibid* 434.

133 (1862) 31 Beav 292, 54 ER 1151.

plaintiff's trade marks'.¹³⁴ Taking all these types of consideration into account the Deputy Registrar came to a figure of 20 per cent of the defendant's total profit, which it was then liable to pay over to the plaintiff. Noel J remarked upon the possible unconscionable results which could flow from adopting the approach argued for by the plaintiff in this case. He considered in particular the results which would follow from the plaintiff's position in a case where several trade marks were used all belonging to different people. He said:

'Indeed, one might ask whether, if the trade marks used together belonged to different people, the defendant should be compelled to pay an amount equal to all of his profits to each of the individual owners. To reach such a result would indeed be most unreasonable and would lead to unjustifiable abuses.'¹³⁵

Amongst other things this case sheds some light on the sort of things that could be taken into account in deciding how much of the profit was attributable to the use of the trade mark.

(iii) *Passing Off*

The quantum of profits in the area of passing off has recently been considered in *My Kinda Town Ltd (Trading as Chicago Pizza Pie Factory) v Soll*¹³⁶ in which Slade J was considering a situation where the plaintiff had obtained an injunction to stop the defendant using the name 'Chicago Pizza' in any part of its restaurant name. The plaintiff elected to have an account of profits and claimed all of the profits made by the defendant during the time when the defendant had been carrying on his business under the name 'L.S.Grunts Chicago Pizza Company' or any other name including the phrase 'Chicago Pizza'. The defendant, on the other hand, argued that the only profits which may be recovered by the plaintiff are profits attributable to the wrongful use by the defendant of the plaintiff's trade name (an argument which would appear to be in accordance with the trade mark cases discussed above). It was necessary to consider these competing arguments and in particular the correctness of the defendant's argument in the light of cases such as *Edelsten v Edelsten*,¹³⁷ *Ford v Foster*¹³⁸ and *Lever v Goodwin*¹³⁹ in which the relevant courts had held that, in a case of passing off, purchasers do not have to be deceived in order for a successful plaintiff to recover the profits made by the defendant on the purchases. For example, in *Edelsten v Edelsten*, the Lord Chancellor said, referring to an account of profits:

'[I]t is not necessary for relief in equity, that proof should be given of persons having actually been deceived and having bought goods with the defendant's mark, under the belief that they were of the manufacture of the plaintiff, provided the Court be satisfied that the resemblance is such as would be likely to cause the one mark to be mistaken for the other.'¹⁴⁰

134 Supra n 131 at 434.

135 Ibid.

136 Supra n 123.

137 (1863) 1 De GJ & S185, 46 ER 72.

138 (1872) 7 Ch App 611.

139 (1887) 36 Ch D 1.

140 Supra n 137 at 200, 78.

In *My Kinda Town*¹⁴¹ Slade J said that the defendant had gained profits from three classes of customers:

- '(i) profits made from meals served to customers of the defendants who had been confused into believing that the defendants' restaurant was connected with the plaintiffs' restaurant; and
- (ii) profits made from meals served to customers of the defendants who knew of the existence of the plaintiffs' restaurant but had not been confused in any way; and
- (iii) profits made from meals served to customers of the defendants who had no knowledge of the existence of the plaintiffs' restaurant.'¹⁴²

He pointed out that on the plaintiff's argument no distinction would be drawn between those three classes. As to whether or not this was the correct position, Slade J said that it was necessary to relate each type of profit to the object in granting an account of profits which he said was 'to deprive the defendants of the profits which they have improperly made by wrongful acts committed in breach of the plaintiffs' rights and to transfer such profits to the plaintiffs'.¹⁴³ On this type of analysis it is clear that the profits in the first class mentioned are of the kind which should be paid over to the plaintiff. To deal with the second and third classes of profits it is necessary to look again at the cases referred to above (those are *Edelsten v Edelsten*, *Ford v Foster* and *Lever v Goodwin*) upon which the plaintiff relied. In addition the plaintiff relied upon the cases of *Saxlehner v Apollinaris Co*,¹⁴⁴ *Saxlehner Weingarten Bros v Charles Bayer & Co*¹⁴⁵ and *Peter Pan*.¹⁴⁶ Slade J was able to distinguish all these cases, except *Saxlehner v Apollinaris Co* and *Peter Pan*, upon the basis that they involved sales to middlemen in which the conduct complained of was the fact that the defendants were, by their behaviour, putting an instrument of fraud into the hands of middlemen by which it was possible that any or every ultimate consumer may be deceived.¹⁴⁷ *Saxlehner v Apollinaris Co* was distinguished on the basis that Kekewich J in that case was purporting to do no more than follow *Lever v Goodwin*. *Peter Pan* was distinguished on the basis that it was a breach of confidence case. However, it is submitted that a preferable basis of distinction for *Peter Pan* would be that it was a case in which (as discussed below) the goods simply could not be made or sold at all without the infringement of the plaintiff's rights, particularly since Slade J went on to rely upon, inter alia, two patent cases.¹⁴⁸ He relied on these patent cases for the proposition that even in a passing off case the court will only take away profits improperly made and in practical terms that means that profits in the second and third class (that is, profits made from

141 Supra n 123.

142 Ibid 149.

143 Ibid.

144 [1897] 1 Ch 893.

145 (1905) 22 RPC 341.

146 Supra n 123.

147 This appears to be completely justifiable. See the Lord Chancellor in *Edelsten v Edelsten*, supra n 137 at 200, 78.

148 The patent cases to which Slade J referred were *The United Shoe and Nail Co Ltd v Stewart & Co*, supra n 119 and *Sidell v Vickers*, supra n 121. He referred also to *Cartier v Carlisle* (1862) 31 Beav 292; 54 ER 1151, a common law trade mark case.

people who were not deceived) are not liable to be paid over to the plaintiff. Slade J regarded this as the most equitable conclusion to which he could come. He referred to the problems inherent in any other decision:

'The evidence before me indicated that the defendants' restaurant is a thriving concern and that a considerable part of their profits owes nothing to the plaintiffs or the plaintiffs' reputation. To order an account in the form sought by the plaintiffs would be tantamount to a decision that [the defendants], whose personal honesty is not in dispute, should be treated as having conducted the whole of the business of the defendants' restaurant throughout the relevant period as trustees for the benefit of the plaintiffs, albeit at a reasonable wage for themselves.'¹⁴⁹

In summary then, in a passing off case it is necessary first to decide whether or not the case involves sales to middlemen. If it does then it appears that the defendant will be liable to account to the plaintiff for all profits made on such sales. If, however, the case does not involve sales to middlemen, then the defendant will not be liable to account for profits derived from sales to consumers who are not deceived. Presumably, if the sales involve both sales to middlemen and to consumers then the only sales for which the defendant will not be accountable are those to ultimate consumers who are not deceived. It is obvious, but nevertheless relevant to observe, that there will be some difficulty deciding here exactly what proportion of purchasers have or have not been deceived. Slade J held in *My Kinda Town* that in deciding this apportionment the onus should not, at first, fall upon either party since 'Proof of such matters on a mathematically exact basis would clearly be impossible, either way'.¹⁵⁰ It is necessary, he said, to try and reach a fair apportionment. He did, however, say that the defendant was not liable only to account for sales to those people whose sole motivation in buying was their confusion about the name. He said: 'if the customers have been influenced by a number of factors, of which the name is a prominent factor, the Master may well take the view that in such cases the profits are properly attributable to the use by the defendants of the name' and in making his decision the Master will have to apply 'reasonable common sense standards'.¹⁵¹ However, notwithstanding these difficulties (which plague this whole area), it is submitted that the decision of Slade J in *My Kinda Town* is a most desirable one. Not only does it satisfactorily reconcile the cases in the area, it also brings the quantum of profits in the passing off area into line with the quantum of profits decisions in the patent and trade mark areas. In all these areas it is now relevant to ask: 'How much of the profits are due to the infringement?' and then to apportion them accordingly.

(iv) Breach of Confidence

The quantum of the profits liable to be accounted for in the breach of confidence area has been given its most significant considerations in *Peter Pan*¹⁵² and the more recent New Zealand decision of *A B*

149 Supra n 123 at 157-158.

150 Ibid 158.

151 Ibid 159.

152 Supra n 123.

Consolidated Ltd v Europe Strength Food Co Pty Limited.¹⁵³ In *Peter Pan* the defendant had used confidential information to manufacture a particular type of brassiere. The argument for the defendants appeared to be that taking into account the various cases in this area, the amount which the defendants are liable to account for is

'the amount by which the profit made by the defendant from manufacturing articles with the aid of the patents, trade marks, confidential information, or whatever it may be, which he has in fact used exceeds the amount of the profit which he would have made if he had manufactured the same article without the aid of that material'.¹⁵⁴

Pennycuik J said, first, that it was 'quite impossible' to regard this as the true meaning of the cases; and secondly, 'perfectly impossible' to regard such a statement of principle as being applicable in this case.¹⁵⁵ With respect to his first statement, it is respectfully submitted that Pennycuik J was wrong because it is not 'quite impossible' to regard the cases as standing for that proposition provided one regards as exceptions 'middleman cases',¹⁵⁶ cases in which a mark has become inextricably linked with the goods and cases in which the goods could not be made at all without the infringement. The motivating reason behind the second statement of Pennycuik J was that in this case the manufacture of the particular style of brassiere could not have occurred at all without the breach of the confidential information. He distinguished *Sidell v Vickers*¹⁵⁷ upon the basis that in that case the defendant could have manufactured the product using other means; in this case, as stated above, he could not. Thus, the case is clear authority for the proposition that, at least in the area of breach of confidential information, the defendant will be liable to account for the whole of the profits where the article could not have been manufactured (or sold) without the breach. In this context the whole of the profits means 'how much had it cost to manufacture [the goods]? What was the price received on its sale? The difference being the profit.'¹⁵⁸

The same test was applied in *A B Consolidated*.¹⁵⁹ In that case the facts led to the same conclusion as in *Peter Pan*,¹⁶⁰ that is that the offending goods could not have been made at all without the abuse of the confidential information. The defendant had been trying for several years to manufacture the relevant goods (health food bars) but had not been successful until it used the confidential information supplied to it by the plaintiff. Woodhouse J made it quite clear that in applying the

153 [1978] 2 NZLR 515. It is worth noting, in addition, that in *United States Surgical Corporation v Hospital Products International Pty Ltd* [1983] 2 NSWLR 157 the NSW Court of Appeal discussed, with respect to the duty of a constructive trustee to account, the gain in law by analogy with breach of confidence cases: 228ff. On appeal to the High Court it was held that there was no fiduciary duty between the parties and it was unnecessary to comment on the above mentioned discussion of the Court of Appeal.

154 Supra n 123 at 60.

155 Ibid.

156 This, of course, begs the question whether or not the middleman analysis applies to trade mark cases. This will be discussed below.

157 Supra n 121.

158 Supra n 123 at 59. Pennycuik J adopted this test from *Lever v Goodwin*, supra n 139.

159 Supra n 153.

160 Supra n 123.

formula from *Peter Pan*¹⁶¹ the costs of manufacture were only those costs of manufacture incurred after the defendant commenced using the manufacturing process of the plaintiff which had been disclosed to it in confidence. The defendant could not set off against the amount received from sales the costs of its years of unsuccessful manufacture.

The result reached in these cases seems to be eminently sensible since where an article could not have been made or sold in any other way there is (obviously) no alternative method by which the profits from it can be compared with the profits gained under the breach (although it should be noted that it may result in a situation where the plaintiff is receiving more than he would have received had he used the information himself). It is submitted that there is no good reason why this principle should not apply to all areas of industrial and intellectual property.

(v) *Copyright and Industrial Designs*

The law in the area of copyright and industrial designs appears to be very much in line with the law as stated with respect to other areas of industrial and intellectual property in so far as it is applicable. That is, the relevant concept is apportionment. In giving an account of profits the profits due to the incorporation of the plaintiff's copyright material will be the ones for which the defendant is accountable. Where, of course, the copyright in the whole item sold by the defendant belongs to the plaintiff then all the profits will belong to the plaintiff; likewise, presumably, where the article could not be manufactured or sold at all without the inclusion of the copyright material.

In *Colburn v Simms*¹⁶² the court was addressing itself to a situation where a cheaper work produced by the defendant had incorporated part of a more expensive work the copyright in which was owned by the plaintiff. Sir James Wigram VC articulated the basis upon which the account was to be granted. He also drew attention to some of the defects in the remedy:

'The Court, by the account, as the nearest approximation which it can make to justice, takes from the wrongdoer all the profits he has made from his piracy and gives them to the party who has been wronged. In doing this the court may often give the injured party more, in fact, than he is entitled to, for *non constat* that a single additional copy of the more expensive book would have been sold if the injury by the sale of the cheaper book had not been committed.'¹⁶³

Here Sir James Wigram VC was pointing out something pointed out earlier in this article. That is, that the remedy of account of profits may well put the plaintiff in a better position than he otherwise would have been.

(vi) *General Comments*

Besides the general difficulties sought to be illustrated by the discussion in this area of calculation there are some problems not adequately dealt with in the cases. Perhaps the most general problem is the extent to

161 See text *supra* at n 158.

162 (1843) 2 Ha 543, 67 ER 224.

163 *Ibid* 560, 231.

which the cases on calculation in one category of industrial and intellectual property can be used as authority in another category. In the above discussion it has been suggested interstitially that there is no objection to using the authorities in such a way. Generally speaking, the judges appear to find no difficulty in crossing category lines and an example of this would be the approach of Windeyer J in *Colbeam Palmer*.¹⁶⁴ Of course, there have been some reservations expressed in regard to the procedure. For example, in *My Kinda Town* Slade J (after relying upon *Sidell v Vickers*¹⁶⁵) remarked that although patent cases are not binding in a passing off case they illustrate that the court will not order an account that is inequitable and thus will order an apportionment.¹⁶⁶ Even on this strict application of *stare decisis*, while the decisions in other categories are not binding they are relevant to the question of quantum of profits in another category. Thus, subject to the view of Slade J in *My Kinda Town*, there appears to be no objection in authority to using the decisions in one category to draw general principles insofar as these are applicable for another category. Further there appears to be no objection in reason to this approach. That being so, some other questions arise in the light of the above cases.

The first of these is the question whether the 'middleman principle' in *My Kinda Town*¹⁶⁷ applies to trade mark cases as well. In principle, there is no reason why it should not since infringement of trade marks is basically a statutory form of passing off. While there are no cases which preclude the conclusion that the middleman principle applies there also appear to be no reported cases on registered trade marks which support it. It is submitted that the correct conclusion is that the middleman principle applies to trade mark infringement so that the defendant will be liable to account for the whole of his profits made in the sale of the article bearing the infringing mark where he is selling his goods not to the ultimate consumer but to a middleman.¹⁶⁸

A second matter which comes to mind is based upon the decision in *Peter Pan*.¹⁶⁹ It will be remembered that, in that case, the court said that where the item could not have been manufactured and sold at all without the misuse of confidential information then the defendant was liable to disgorge all profits made by it in relation to that item. But what would be the result in such a case if different pieces of confidential information belonging to two different people were used, without either of which the item could not be made, or where confidential information belonging to one person was used and a patent belonging to some other person was infringed both of which were essential to the production of the item? Surely, the equitable considerations mentioned by Slade J in *Peter Pan*, would preclude a requirement that the defendants pay over the whole amount of the profits to both people.¹⁷⁰ However, an apportionment under such circumstances would not appear to be in

164 Supra n 27.

165 Supra n 121.

166 Supra n 123 at 156.

167 Supra n 123.

168 See also Blanco-White and Jacob, *Kerly's Law of Trade Marks and Trade Names* (10th edn 1972) 345.

169 Supra n 123.

170 See also Noel J in *Dubiner v Cheerio Toys and Games Ltd*, supra n 131 at 434.

accordance with authority and if it did take place why should it not always take place in a case like *Peter Pan*. These questions have not yet been addressed by the courts. Perhaps the only answer is to say that since account is a discretionary remedy the court in its discretion and in the interests of equity would order, in such circumstances, an apportionment even though the general rule in *Peter Pan* would still stand.

In summary then, one could perhaps say that in a case involving an infringement of an industrial or intellectual property right the defendant will be required to account only for that portion of his profits which have resulted from the infringement, with the proviso that the courts will not order an apportionment and the defendants will be forced to account for the whole of the profits in relation to the item where:

- (i) in the case of a trade mark infringement or passing off, the sales by the defendant have been to a middleman;
- (ii) in a case of trade mark infringement or passing off, the inherent nature of the goods has become so inextricably entwined with the name or other mark under which they are sold that it is impossible to separate them; and
- (iii) in any case, the item could not have been manufactured or sold without the infringement taking place, although where there has been more than one infringement with respect to different plaintiffs then the court may apportion the profits between those different plaintiffs.

However, this whole formulation begs the question of what are the 'profits'.

(b) What is Profit?

The question as to what is 'profit' in this context is an extremely difficult one. It is proposed here only briefly to review the main contributions made by various judges in this area, rather than to enter into an economists' discussion. Perhaps the most significant contribution is that made in *Colbeam Palmer* by Windeyer J who suggested that the way in which the Registrar should take the account in order to ascertain the profits derived in relation to the goods is:

- '(1) to ascertain the sum received by the defendant for painting sets sold by it between 30th August 1965 and 18th October 1966 under the name Craftmaster or Craft Master or bearing such name upon them or upon any cards, leaflets or advertising matter sold therewith;
- (2) to ascertain the total cost to the defendant of
 - (a) obtaining the articles so sold and getting them to its store or place of business. This will be the landed cost in Australia including any charges for customs duties etc. payable by the defendant and also any costs of carriage to the place of business; and of
 - (b) selling and delivering the articles so sold to the buyers of them. This will include any costs directly attributable to such sales and deliveries. But it should not, I think, include any part of the general overhead costs, managerial expenses and so forth of the defendant's business, as it seems that all these would have been incurred in any event in the ordinary

course of its business in which as it was put in evidence the painting sets were a 'side line': cf *Leplastrier & Co Ltd v Armstrong-Holland Ltd.*'

The difference between (1) and (2) represents the profit.¹⁷¹ As can be seen, Windeyer J referred to *Leplastrier*,¹⁷² in which the court considered, amongst other things, what matters can be deducted from the gross takings in order to come to the amount which equals the profit; in other words those costs deductible under paragraph (2)(b) of the scheme of Windeyer J in *Colbeam Palmer*. Harvey CJ said in that case that the defendant was not entitled to deduct 'interest on capital employed in the business' or 'remuneration to himself, nor under any circumstances can he claim...any director's fees for carrying on the business'.¹⁷³ This latter prohibition may well conflict with a statement of Slade J in *My Kinda Town*¹⁷⁴ in which he envisaged that if he granted the account of profits sought by the plaintiff he would be holding in effect that the defendants had carried on their business as trustees for the plaintiff, although at a remuneration to themselves, thus implying that he would have allowed them to deduct their own salary costs from the profits. It should, however, be pointed out that this was an obiter dictum.

Harvey CJ in *Leplastrier*¹⁷⁵ thought, on the other hand, that some things that could be taken into account were 'costs of material', 'costs of wages' and any other thing which is 'solely referable to the manufacture of the machines'. Obviously, the matters referred to by these judges are not exhaustive and it seems that the onus of showing that a particular item will be deductible falls upon the defendant.¹⁷⁶

5. POLICY CONSIDERATIONS AND SOME CONCLUSIONS

Generally speaking, the discretion of courts resulting from the nature of an equitable remedy has been given such a wide rein with respect to the remedy of account of profits that a significant degree of uncertainty has resulted. This is, no doubt, because cases on account of profits have been few and far between and thus a coherent body of law has not been permitted to develop. A partial reason for this is the particular difficulties in calculation. These difficulties arise not only in establishing a 'quantum' of profits for which the defendant is to be accountable but also from the difficulties involved in determining what is 'profit' and then, if necessary, apportioning the relevant part of those profits to the plaintiff. Such difficulties themselves are probably sufficient to cast doubt on the utility of the remedy. After all, it is said that the purpose of the remedy is to force a wrongdoer to disgorge those profits which he has wrongfully made because those profits rightly belong to the plaintiff. Yet judges are constantly referring to the obvious fact that mathematical precision cannot be obtained with the result that all the defendant is being forced to disgorge is, at best, a mere approximation.

It should also be noted that the sensible plaintiff would probably only opt for an account of profits where the defendant had made more money

171 *Supra* n 27 at 38-39.

172 *Supra* n 99.

173 *Ibid* 593.

174 See text *supra* at n 134.

175 *Supra* n 99 at 593.

176 *Ibid.*

from the use of the plaintiff's rights than the plaintiff could have done. If the defendant had made demonstrably less then in many circumstances a remedy in damages would produce a greater yield for the successful plaintiff. This raises the problem of whether or not it is desirable to have a remedy which puts the plaintiff in, perhaps, a significantly better position than he would otherwise be, particularly when the remedy is one which is based upon the notion of merely handing over to the plaintiff what is, in truth, his. (Although, one could argue that since the defendant must in fact have either actual or constructive knowledge of the plaintiff's right he is in fact a wrongdoer and should be punished in this way.)

Another defect in the remedy of account of profits has been impliedly suggested by Goff in his discussion of the area of breach of confidence. He indicated that the remedy was not sufficiently flexible. He suggests that where the defendant was consciously dishonest then the court should have a discretion in calculating profit to refuse an allowance for skill and labour.¹⁷⁷ Presumably, there are also other matters which the court could refuse to allow when calculating profit, such as costs of material and wages. This is quite a reasonable suggestion in itself, except that if the courts did this then the remedy would no longer be, in fact, an account of profits. One could make one of three possible responses to Goff's criticism. The first possibility is that we could discard the remedy of account of profits and introduce some new remedy based on account of profits by giving the courts discretion to refuse certain allowances in certain matters, as suggested by Goff, thus developing a remedy which may look a little like an 'aggravated' account. The second possibility is to refuse to allow account of profits in cases of conscious dishonesty and allow the remedy of aggravated damages to deal with such a situation. The third possibility is simply to abolish account of profits altogether and allow the remedy of damages or, when appropriate, aggravated damages to mete out the necessary remedy. Simplicity would seem to commend the third possibility.

In favour of retaining a remedy of account of profits is the view that it is unconscionable for a defendant to retain dishonestly earned profits¹⁷⁸ (and here it must be borne in mind that the account of profits remedy, except in the area of copyright, is directed towards only those people who know actually or constructively that they are infringing another's rights). While the truth of this probably cannot be denied there are, as stated above, other ways, such as damages, of redressing the inequities that arise which are perhaps not quite as fraught with problems as account of profits.

Another factor in favour of retaining this equitable remedy is that a successful plaintiff in a breach of confidence action may be deprived of a monetary remedy. As mentioned above¹⁷⁹ the action for breach of confidence may be the only intellectual property action based upon a right in equity. Stuckey has alluded to the analytical difficulties with respect to a Court of Equity's awarding statutory damages under Lord Cairns Act¹⁸⁰ and the fact that in the area of confidential information, given

177 Jones, *supra* n 44.

178 See, for example, Sir James Wigram VC in *Colburn v Simms*, *supra* n 162 at 560, 231.

179 See *supra* n 19.

180 Stuckey, 'The Equitable Action for Breach of Confidence: Is Information ever Property?' (1981) 9 Syd LR 402.

that information may well lose its value once it is no longer confidential, restitution based on a damages quantum may be inadequate.¹⁸¹ Two other possibilities she does suggest are common law damages for the tort of inducing a breach of a confidential relationship or an award for quantum meruit, the latter being something, she points out, having been granted in the North American case of *Matarese v Moore-McCormach Lines Inc*¹⁸² on the basis of the theory of unjust enrichment. Nevertheless these possibilities have not yet been explored by English and Australian courts.¹⁸³ Thus in the area of breach of confidential information the remedy of account of profits may yet be a necessary evil. However, this is not a consideration which applies to other areas of industrial and intellectual property.

In conclusion, the idea behind the remedy of account of profits is arguably a good one. However, the mere procedural and substantive difficulties with the remedy plus the fact that as a restitutionary device it is open to question on the ground that a plaintiff can perhaps get more than he would have got himself militates against the utility and indeed desirability of the remedy.

181 Ibid 424-425.

182 158 F 2d 631 (1946).

183 Supra n 180 at 415.