FEDERAL COURT OF AUSTRALIA

Aristocrat Technologies Australia Pty Limited v Konami Australia Pty Limited (No 2) [2019] FCA 1701

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| File number: |  |
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| Judge: | **NICHOLAS J** |
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| Date of judgment: | 16 October 2019 |
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| Catchwords: | **PRACTICE AND PROCEDURE** – application by respondent to amend defence on second day of three week hearing of applicant’s claim to (inter alia) an account of profits – consideration of nature of amendment – whether new defence sought to be raised seriously arguable – effect on hearing dates – whether respondent should be permitted to amend – application for leave to amend refused |
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| Legislation: | *Patents Act 1990* (Cth) s 123  *Trade Marks Act 1955* (Cth)  *Trade Marks Act 1995* (Cth) |
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| Cases cited: | *Aon Risk Services Australia Ltd v Australian National University* (2009) 239 CLR 175  *Aristocrat Technologies Australia Pty Limited v Konami Australia Pty Limited* (2015) 114 IPR 28  *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25  *Dart Industries Inc v Decor Corporation Pty Ltd* (1993) 179 CLR 101  *Konami Australia Pty Ltd v Aristocrat Technologies Australia Pty Ltd* (2016) 119 IPR 402 |
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| Date of hearing: | 15 October 2019 |
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| Registry: | New South Wales |
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| Division: | General Division |
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| National Practice Area: | Intellectual Property |
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| Sub-area: | Patents and Associated Statutes |
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| Category: | Catchwords |
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| Counsel for the Applicant: | Mr AJL Bannon SC with Mr ADB Fox and Mr WH Wu |
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| Solicitor for the Applicant: | Gilbert + Tobin |
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| Counsel for the Respondent: | Mr C Dimitriadis SC with Mr HPT Bevan and Ms ARP Spies |
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| Solicitor for the Respondent: | Thomson Geer |

ORDERS

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|  | | NSD 1429 of 2011 |
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| BETWEEN: | ARISTOCRAT TECHNOLOGIES AUSTRALIA PTY LTD (ACN 001 660 715)  Applicant | |
| AND: | KONAMI AUSTRALIA PTY LTD (ACN 076 298 158)  Respondent | |

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| JUDGE: | NICHOLAS J |
| DATE OF ORDER: | 16 October 2019 |

THE COURT ORDERS THAT:

The application made by the respondent for leave to file the proposed Second Further Amended Defence is dismissed with costs.

Note: Entry of orders is dealt with in Rule 39.32 of the *Federal Court Rules 2011*.

REASONS FOR JUDGMENT

NICHOLAS J:

1. On the second day of the hearing, after the completion of the parties’ opening submissions, the respondent (“Konami”) made an application for leave to amend its defence to raise what it accepts is a new point in answer to the claim made by the applicant (“Aristocrat’) to an account of profits for infringement of Australian Patent No 754689 (“the 689 Patent”). If the new point is to be relied upon by Konami it must, in my view, be pleaded in accordance with r 16.08(b) and r 16.08(c) of the *Federal Court Rules 2011* (Cth).
2. At an earlier stage of the proceeding I found that various claims of the 689 Patent were valid and infringed: see *Aristocrat Technologies Australia Pty Limited v Konami Australia Pty Limited* (2015) 114 IPR 28. An appeal against that judgment was dismissed by the Full Court: see *Konami Australia Pty Ltd v Aristocrat Technologies Australia Pty Ltd* (2016) 119 IPR 402. The matter now being heard by me concerns Aristocrat’s claims to an account of profits in respect of some admitted infringements and to damages in respect of other admitted infringements following an election made by Aristocrat on 1 September 2017.
3. The issue with which I am now concerned relates to the claim for an account of profits. The point which Konami seeks to raise by way of amendment to its existing defence appears in paragraph 30 of its proposed Second Further Amended Defence:

30. In further answer to the Applicant’s claim for an account of profits, it would not be unconscionable for the Respondent to retain such profits as it made in respect of any infringements of the ‘689 Patent that took place prior to 2 March 2011, or, further alternatively, 5 January 2011, being the date on which the Applicant first notified the Respondent of its claim that the Respondent infringed the ‘689 Patent.

Particulars

(i) Letter of demand from Griffith Hack dated 2 March 2011. See Court Book, volume, tab 320 at 2654-2655.

(ii) Telephone call on or around 5 January 2011. See Court Book, volume 7, tab 315 at 2605.

(iii) Affidavit of Jason Quayle sworn 24 September 2018 at paragraph 20. See Court Book, volume 7, tab 309 at paragraph 20.

(iv) Affidavit of Thomas Anthony Jingoli sworn 20 September 2018 at paragraphs 13-15. See Court Book, volume 6, tab 251 at 2326.

1. The application to amend was prompted by an objection raised by Aristocrat to Konami relying on a new point in its written opening submissions that was not referred to in Konami’s existing pleading. In its written submissions Konami stated:

29. Where a patentee has elected an account, equity requires the profits knowingly made by reason of the infringement to be disgorged because it would be unconscionable for the infringer to keep them.

…

32. Importantly, “it lies upon a plaintiff who seeks an account of profits to establish that profits were made by the defendant knowing that he was transgressing the plaintiff’s rights”: *Colbeam Palmer* (at 35).

…

34. Aristocrat must establish that Konami made profits knowing it was transgressing Aristocrat’s rights: *Colbeam Palmer*. Aristocrat’s burden will not be discharged. It is not in dispute that Konami was aware of the existence 689 patent (and Konami does not separately raise a positive case based on s 123). But it is in dispute that Konami acted from 2005 knowing it was transgressing Aristocrat’s rights. Konami’s affidavit evidence shows that the earliest communication from Aristocrat about potential infringement was in January 2011 in respect of Konami’s Mystical Temple game … The first letter of demand was sent in March 2011 … At this time, the basis of Aristocrat’s complaint remained unclear … Even so, the earliest date from which an account should be given is 2 March 2011.

(footnotes omitted)

1. The substance of the point raised in the written submissions was that to recover profits in respect of any infringement Aristocrat had to establish that Konami knew at the time it engaged in the relevant acts that they constituted an infringement of Aristocrat’s patent rights.
2. The point now sought to be raised by Konami, as developed by Mr Dimitriadis SC in oral submissions in support of the proposed amendment, depends on not a “knowing transgression” (in the broadest sense), but on persistence after notice was given by Aristocrat to Konami in January or March 2011 of Aristocrat’s assertion that Konami had infringed the 689 Patent. Expressed in this way, the point does not depend on whether Konami knew or had reason to believe that Konami was infringing the 689 Patent. Instead, on Konami’s approach, notice of an allegation of infringement is the relevant criterion of liability, independently of whether Konami knew of, or ought reasonably to have suspected, that it was infringing the 689 Patent.
3. It is accepted by Konami that the point was not raised by Konami until it served its written opening submissions in the week before the present hearing commenced. In particular, it accepts that the point was not raised in either its defence or the agreed statement of issues filed by the parties which was finalised and signed by the parties’ legal representatives in June 2019. Nor did Konami raise the point in its memorandum of 13 June 2019 provided pursuant to orders made on 18 July 2018 (the time for compliance with which was extended by consent on three occasions).
4. With regard to the account of profits, Konami stated in its memorandum that the primary issue on the account of profits involves a point of principle which required that Konami “disgorge that part only of the profits attributable to the substance of the invention of the claims of the 689 Patent which were found to be infringed.” Other issues relating to the apportionment of costs and expenses were also identified. I mention these matters not because Konami contends that the new point had been adverted to before last week, but to provide some indication of the steps that were taken in accordance with procedural orders made in this proceeding to apprise the parties and the Court of the issues that would need to be determined in relation to Aristocrat’s claims for pecuniary relief.
5. There is evidence from Mr Anthony James Conaghan, the solicitor for Konami (who was not cross-examined), that the point now sought to be raised was not one that occurred to any of Konami’s legal representatives until early October 2019 when Konami’s written opening submissions were being prepared.
6. The fact that the point did not occur to Konami’s legal representatives until shortly before the commencement of the hearing is not surprising. To understand why I say this, it is first necessary to refer to s 123 of the *Patents Act 1990* (Cth) (“the Patents Act”) which relevantly provides:

**123 Innocent infringement**

(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 if the defendant satisfies the court that, at the date of the infringement, the defendant was not aware, and had no reason to believe, that a patent for the invention existed.

1. Konami has never sought to rely on the defence provided for in s 123. Indeed, Konami admits that it knew of the existence of the 689 Patent at all material times including throughout the period it accepts that it infringed. A defence under s 123 could not succeed in the light of that admission.
2. The authorities referred to the written opening submissions and in Mr Dimitriadis SC’s oral submissions in support of the amendment application include the well-known decision of Windeyer J in *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25 (“*Colbeam*”) in which his Honour said at pp 34-35:

[T]he 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 coextensive 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. So it was in respect of common law trade marks. So it still is in respect of registered trade marks: *Edelsten v. Edelsten* (1863) 1 De G. J. & S. 185 [46 E.R. 72]; *Slazenger & Sons v. Spalding & Bros.* [1910] 1 Ch. 257; *Moet v. Couston* (1864) 33 Beav. 578 [55 E.R. 493]. I think that it follows that it lies upon a plaintiff who seeks an account of profits to establish that profits were made by the defendant knowing that he was transgressing the plaintiff's rights.

1. There are a couple of points to make about *Colbeam*.
2. The plaintiff in *Colbeam* was sued under the *Trade Marks Act 1955* (Cth) which, like the *Trade Marks Act 1995* (Cth), did not include any provision analogous to s 123 of the Patents Act. Windeyer J held that the defendant was not liable to account for profits made in the period during which the defendant had not been shown to have known of the existence of the plaintiff’s trade mark.
3. Other cases to which I was taken by Mr Dimitriadis SC were also concerned with claims of trade mark infringement or passing off. Although he placed reliance upon some general observations concerning the nature of the remedy of an account of profits in *Dart Industries Inc v Decor Corporation Pty Ltd* (1993) 179 CLR 101 (which was, of course, a patent case) Mr Dimitriadis SC accepted that the specific point with which I am concerned was not addressed in that case.
4. There is a strong argument that the general law principle applied by Windeyer J in *Colbeam* does not apply in respect of a claim for an account of profits under the Patents Act given the presence of s 123. Section 123 may well be understood to displace the operation of any more general principle particularly with regard to the knowledge requirement and the onus of proof. However, for the purposes of determining the present application it is unnecessary for me to decide these matters.
5. One curiosity that arises in relation to the point raised by Konami stems from how it is pleaded. In its proposed amended defence Konami accepts that it knew of the existence of the 689 Patent, but relies by way of defence to the claim for an account of profits on the fact that Aristocrat did not make any allegation of infringement until January or March 2011. On Konami’s case, liability to account for profits in respect of proven infringements arises not from knowledge of the existence of the 689 Patent but from knowledge of Aristocrat’s assertion that the 689 Patent had been infringed by Konami.
6. It is not suggested by Konami that Aristocrat was guilty of laches, delay or acquiescence or that an account of profits should be withheld on that basis. This raises the question of why a respondent who knew of the existence of a patent which it was later found to have infringed should be entitled to avoid an account of profits merely because the applicant (which may not have known that the respondent was infringing) does not make any allegation of infringement until after the act of infringement occurred.
7. The discussion to this point assists in drawing attention to some of the difficulties that Aristocrat may face if leave to amend is given. Mr Bannon SC says that Aristocrat would be entitled to answer the defence sought to be raised by Konami by showing that Konami knew, or ought reasonably to have known, that it was or may well be infringing the 689 Patent before January or March 2011. That is a matter that is not canvassed in the affidavit evidence filed by either party and is not something that Aristocrat has investigated by way of discovery or otherwise. Significantly, Mr Conaghan’s affidavit says nothing in relation to what Konami’s state of mind was during the relevant period or whether Konami will contend that it had no reason to believe that it was infringing the 689 Patent before January or March 2011. The proposed amendment also says nothing on that topic.
8. Mr Bannon SC says, and I accept, that the present hearing would need to be adjourned for a lengthy period to permit Aristocrat to investigate Konami’s state of knowledge in the period commencing around late 2004 or early 2005 through to January or March 2011.
9. Mr Dimitriadis SC emphasised that the point Konami seeks to raise is one upon which Aristocrat bears the onus of proof. This submission (assuming it is correct) does no more than underscore the importance of allowing Aristocrat an opportunity to pursue one or more potential lines of factual inquiry directly relevant to a matter on which Konami contends Aristocrat will bear the onus and on which Konami has chosen to remain wholly silent.
10. Mr Bannon SC argued that the point sought to be raised by Konami is not seriously arguable. I accept that there are very considerable difficulties with it. That is a matter I have taken into account in considering how to exercise my discretion with respect to Konami’s application for leave to amend.
11. Of more importance, however, is the fact that Aristocrat will need to be given the opportunity to investigate the state of Konami’s knowledge concerning the question whether Konami knew or ought to have known that it was or may well be infringing the relevant claims of the 689 Patent in the period from around late 2004 or early 2005 through to January or March 2011.
12. Other matters relevant to the present application include the following:
13. The order fixing the present hearing was made on 18 July 2018.
14. The hearing is scheduled to occupy three weeks before being adjourned for the purpose of hearing final submissions on dates yet to be fixed.
15. It is highly unlikely that the hearing, if now adjourned, could recommence until sometime in the second half of 2020.
16. The explanation given for the delay in raising the point is not satisfactory. Konami has had many months (going back to 1 September 2017) to consider its position with respect to the account of profits claim and to identify the points it would raise in answer to that claim.
17. In *Aon Risk Services Australia Ltd v Australian National University* (2009) 239 CLR 175, the plurality emphasised that while the just resolution of proceedings remains the paramount objective of case management, resolving proceedings with the minimum expense and delay is an essential component of the just resolution of proceedings. In the context of a consideration of Rule 21 of the *Court Procedures Rules 2006* (ACT) their Honours said:

[98] …Speed and efficiency, in the sense of minimum delay and expense, are seen as essential to a just resolution of proceedings. This should not detract from a proper opportunity being given to the parties to plead their case, but it suggests that limits may be placed upon re-pleading, when delay and cost are taken into account. The Rule’s reference to the need to minimise costs implies that an order for costs may not always provide sufficient compensation and therefore achieve a just resolution. It cannot therefore be said that a just resolution requires that a party be permitted to raise any arguable case at any point in the proceedings, on payment of costs.

…

[102] The objectives stated in r 21 do not require that every application for amendment should be refused because it involves the waste of some costs and some degree of delay, as it inevitably will. Factors such as the nature and importance of the amendment to the party applying cannot be overlooked. Whilst r 21 assumes some ill-effects will flow from the fact of a delay, that will not prevent the parties dealing with its particular effects in their case in more detail. It is the extent of the delay and the costs associated with it, together with the prejudice which might reasonably be assumed to follow and that which is shown, which are to be weighed against the grant of permission to a party to alter its case. Much may depend upon the point the litigation has reached relative to a trial when the application to amend is made. There may be cases where it may properly be concluded that a party has had sufficient opportunity to plead their case and that it is too late for a further amendment, having regard to the other party and other litigants awaiting trial dates. Rule 21 makes it plain that the extent and the effect of delay and costs are to be regarded as important considerations in the exercise of the court's discretion. Invariably the exercise of that discretion will require an explanation to be given where there is delay in applying for amendment.

[103] … Generally speaking, where a discretion is sought to be exercised in favour of one party, and to the disadvantage of another, an explanation will be called for. The importance attached by r 21 to the factor of delay will require that, in most cases where it is present, a party should explain it. Not only will they need to show that their application is brought in good faith, but they will also need to bring the circumstances giving rise to the amendment to the court's attention, so that they may be weighed against the effects of any delay and the objectives of the Rules. There can be no doubt that an explanation was required in this case.

[111] An application for leave to amend a pleading should not be approached on the basis that a party is entitled to raise an arguable claim, subject to payment of costs by way of compensation. There is no such entitlement. All matters relevant to the exercise of the power to permit amendment should be weighed. The fact of substantial delay and wasted costs, the concerns of case management, will assume importance on an application for leave to amend …

[112] A party has the right to bring proceedings. Parties have choices as to what claims are to be made and how they are to be framed. But limits will be placed upon their ability to effect changes to their pleadings, particularly if litigation is advanced. That is why, in seeking the just resolution of the dispute, reference is made to parties having a sufficient *opportunity* to identify the issues they seek to agitate.

(original emphasis)

1. I am satisfied that I could not allow the proposed amendment without vacating the existing hearing dates and adjourning the further hearing of this stage of the proceeding until a date sometime well into the next year. I consider that Konami has had more than sufficient opportunity to plead its case. In my view it would be contrary to the interests of justice to adjourn the present hearing so as to permit Konami to raise its new point at this late stage of the proceeding.
2. The application made by Konami for leave to file the proposed Second Further Amended Defence will be dismissed with costs.

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| I certify that the preceding twenty-seven (27) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Nicholas. |

Associate:

Dated: 16 October 2019