

# SUPREME COURT OF QUEENSLAND

CITATION: *PDP Group Pty Ltd & Anor v Bennett & Philp* [2013] QSC 231

PARTIES: **PDP GROUP PTY LTD & ANOR**  
(applicant)  
v  
**BENNETT & PHILP**  
(respondent)

FILE NO: 2155 of 2013

DIVISION: Trial Division

PROCEEDING: Application

ORIGINATING COURT: Supreme Court of Queensland

DELIVERED ON: 13 September 2013

DELIVERED AT: Brisbane

HEARING DATE: 23 July 2013

JUDGE: Daubney J

ORDERS: 

- 1. The respondent is restrained from acting as solicitors against the applicants, as plaintiffs, in Supreme Court Proceeding No 7582 of 2012.**
- 2. I will hear the parties as to costs.**

CATCHWORDS: PROFESSIONS AND TRADES – LAWYERS – DUTIES AND LIABILITIES – SOLICITOR AND CLIENT – ACTING AGAINST FORMER CLIENT – where the applicants seek to restrain the respondent from acting against them in Supreme Court Proceeding No 7582 of 2012 (“2012 Proceeding”) – where the respondent acted for the applicants (then the plaintiffs) in the 2002 Proceeding – where the applicants argue that allowing the respondent to act will compromise the protection of confidential information, due administration of justice and duty of loyalty to the former client – whether the respondent should be restrained from acting against the applicants (who are the plaintiffs in the 2012 Proceeding) in the 2012 Proceeding.

*Australian Commercial Research and Development Ltd v Hampson* [1991] 1 Qd R 508, cited.

*Farrow Mortgage Services Pty Ltd (in liq) v Mendall Properties Pty Ltd* [1995] 1 VR 1, considered.

*Foxworth Pty Ltd v Polwood Pty Ltd* [2006] QSC 185, cited.  
*Gillies v Dibbets* [2001] QSC 459, considered.

*Kallinicos v Hunt* (2005) 64 NSWLR 561, considered.  
*Mallesons Stephen Jacques v KPMG Peat Marwick* (1990) 4 WAR 357, cited.  
*Ismail-Zai v Western-Australia* (2007) 34 WAR 379, cited.  
*Polwood P/L & Ors v Foxworth P/L & Ors* [2008] QUD 321  
*Prince Jefri Bolkiah v KPMG (a firm)* [1999] 2 AC 222, applied.  
*Rakusen v Ellis; Munday & Clarke* [1912] 1 Ch 831, cited.

COUNSEL: A Stumer for the applicants  
ADP Fox for the respondent  
SOLICITORS: Elliott May for the applicants  
Bennett & Philp for the respondent

## **Introduction**

- [1] The first applicant (“PDP”) and the second applicant (“Mr Power”) are the plaintiffs in a proceeding (BS 7582/12) in which the defendants are Bettergrow Pty Ltd (“Bettergrow”), Mr Neil Schembri and Mrs Lorraine Schembri (“the 2012 Proceeding”). Mr Power is the principal of, and provided instructions for, PDP. The respondent firm of solicitors (“Bennett & Philp”) have acted for and, unless restrained, propose further acting for the defendants in the 2012 Proceeding.
- [2] Bennett & Philp in earlier proceedings (“the 2002 Proceeding”) acted for Foxworth Pty Ltd (“Foxworth”), a company of which Mr Power was a director at the time. Mr Power gave instructions in the 2002 Proceeding for Foxworth. Bennett & Philp ceased acting in the 2002 Proceeding in November 2004.
- [3] The 2012 Proceeding concerns the patent for an invention entitled “Plant Growth Medium” (“the Patent”), being claims for a method, process and apparatus for production of a plant growth medium which involves immersing sawmill waste in heated water.
- [4] In the 2012 Proceeding, PDP and Mr Power allege that the defendants have operated a machine which infringes the Patent. That machine is described in the 2012 Proceeding as the “Mark III”.
- [5] Mr Power and PDP seek an injunction to restrain Bennett & Philp from continuing to act for the defendants in the 2012 Proceeding.
- [6] When the matter came on for hearing before me, the applicants called one witness, Mr Power. The respondent’s only witness was Mr Kenneth Philp. Both were cross-examined and re-examined.

## **Background**

### **2002 Proceeding**

- [7] The 2002 Proceeding was commenced by an originating application filed on 12 June 2002. The applicant was Foxworth and the respondents were Polwood Pty Ltd (“Polwood”), and Mr Lea Charles Rampton and Mrs Marguerite Rampton, the directors of Polwood.

- [8] Bennett & Philp started acting for Foxworth in the 2002 Proceeding in September 2002. Prior to this, Foxworth had been represented by another firm. In his first affidavit, Mr Power deposed to meeting with Mr Philp on about 21 August to discuss the nature of the 2002 Proceeding.<sup>1</sup> Bennett & Philp subsequently filed a notice of change of solicitors on 17 September 2002.<sup>2</sup>
- [9] As will appear, the 2002 Proceeding was also concerned with a “plant growth medium” method.
- [10] The Peachester Sterilising Unit (“PSU”, also known as the “Mark II”) was a machine designed by Mr Power and Mr Kemp to treat bark in heated water. Under cross-examination, Mr Power confirmed that the Mark II was created by Mr Kemp, under Mr Power’s guidance, some time during the period from late 2000 to early 2001.<sup>3</sup> By January 2001, the Mark II had been set up on the Ramptons’ property at Maryborough. By June or July 2001, there had been two demonstrations to prospective purchasers. Mr Power gave evidence that the machine was not used by the Ramptons during the intervening period.
- [11] In the 2002 Proceeding, the relief sought was, in effect, for the delivery up of the Mark II by the Ramptons to Foxworth.
- [12] In February 2003, construction of the Mark III commenced.<sup>4</sup> The Mark III was a replica of the Mark II created by the Rampton interests.
- [13] Bennett & Philp filed a claim and statement of claim on behalf of Foxworth on 8 October 2003.<sup>5</sup> The subsequent defence and counterclaim were filed on 7 November 2003. The reply and answer was filed on 25 November 2003.
- [14] Under cross-examination before me, Mr Power confirmed his affidavit evidence that he had first learned that the Ramptons were seeking to sell the Mark III machine in December 2003, when he met with the Victorian State Manager and General Manager of a company named Bio Gro and was told that the Ramptons had offered to sell the Mark II to Bio Gro.<sup>6</sup> Mr Power had a conversation with Mr Bruce Moore of Agzone Pty Ltd on 8 April 2004. Based on this conversation, Mr Power formed the view that the Ramptons had approached the Maryborough Sugar Mill with the intention of selling it a sterilising unit. By early April 2004, Mr Power had learned of at least two attempts by the Ramptons to sell sterilising units in contravention of the rights he asserted over the machines.<sup>7</sup>
- [15] On an application made by Bennett & Philp on behalf of Foxworth of 23 July 2004, an injunction to restrain sale of the Mark III was granted on an interim basis on 5 August 2004, effective until 19 August 2004.
- [16] On 5 August 2004, Bennett & Philp filed an amended claim<sup>8</sup> in the 2002 Proceeding, on behalf of its client, Foxworth.<sup>9</sup> The amended claim added three new plaintiffs – Aussie Peat Pty Ltd, Peachester Thoroughbreds Pty Ltd (later renamed

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<sup>1</sup> First Power Affidavit, para 7.

<sup>2</sup> AOS, quoting First Power Affidavit, para 8. See also File Summary at Ex PDP-1, p4 at 5.

<sup>3</sup> Transcript, Day 1, p 27. line 30.

<sup>4</sup> Affidavit of Lea Charles Rampton sworn 13 December 2004, para 30.

<sup>5</sup> First Power Affidavit, Ex PDP1, p 288 – 302.

<sup>6</sup> First Power Affidavit, para 47.

<sup>7</sup> First Power Affidavit, paras 47 – 50.

<sup>8</sup> First Power Affidavit, EX PDP1, p 122 – 124.

<sup>9</sup> First Power Affidavit, EX PDP1, p 174 – 191.

PDP group), and Mr Power. It also added a claim alleging that the Mark III had been produced in breach of copyright. The amended statement of claim, which was subsequently filed on 3 September 2004, alleged:

- “41. On dates which the Third and Fourth Plaintiff are presently unable to particularise but in about 2003, the Defendant substantially reproduced or authorised the substantial reproduction of the PSU (‘the infringing conduct’) resulting in ‘the infringing PSU’.
42. The infringing conduct was carried out with the Third and Fourth Plaintiffs’ knowledge, approval or licence.
43. By the infringing conduct, the Defendants and each of them infringed the copyright of the PSU drawings.”

[17] Mr Power deposed that the amended claim and statement of claim were prepared based on his instructions concerning the Mark III.<sup>10</sup>

[18] Mr Lea Rampton filed an affidavit sworn on 17 August 2004 in response to the application for an injunction to restrain the sale,<sup>11</sup> in which he deposed to Polwood having property in the patent in relation to the process of manufacturing orchid bark<sup>12</sup> and the patent in relation to the process of manufacturing peat bark and potting mix.<sup>13</sup> As a result of this affidavit, Mr Power discovered two things previously unknown to him;<sup>14</sup> that Polwood Aussie Bark Pty Ltd, a company associated with the Ramptons, had filed a patent application in respect of the Mark III on 22 July 2002, and that that company had purported to have sold the Mark III to Bettergrow in July 2004.<sup>15</sup>

[19] Having seen the affidavit by Mr Rampton, Mr Power prepared a document headed “General” and forwarded it to Bennett & Philp. This document contained detailed instructions and commentary on aspects, including quite technical aspects, of the matters contained in Mr Rampton’s affidavit. In particular, the document provided Bennett & Philp with Mr Power’s instructions concerning technical aspects of the Mark III.

[20] After Mr Power had provided the “General” document, and once he had learnt of the purported sale of the Mark III to Bettergrow, he sought advice from Simon Sawyer of Bennett & Philp as to how to best protect his interests in the Mark II and Mark III. He also sought advice as to how to preserve his interests against Bettergrow.

[21] Mr Sawyer wrote to Bettergrow on 18 August 2004, informing Bettergrow that Mr Power and his companies claimed ownership of the Mark II. He also requested an undertaking that Bettergrow not accept delivery of the Mark III from the Ramptons.

[22] On 19 August 2004, solicitors acting on behalf of Bettergrow responded that Bettergrow had not purchased the Mark III, stating:

“Our client has purchased nothing of the kind described in your letter to him of 18 inst and is certainly not privy to information which might

<sup>10</sup> First Power Affidavit, para 85.

<sup>11</sup> First Power Affidavit, EX PDP1, pp 51 – 70.

<sup>12</sup> First Power Affidavit, EX PDP1, para 6.

<sup>13</sup> First Power Affidavit, EX PDP1, para 9.

<sup>14</sup> First Power Affidavit, paras 43 and 53.

<sup>15</sup> First Power Affidavit, paras 43 and 53.

identify any equipment as being an “infringing specialisation unit”. ... Our client has no intention of dealing with your client company, or with Polwood Pty Limited, until such time as they have resolved their issues on intellectual property”.<sup>16</sup>

- [23] On 27 August 2004, a permanent injunction was granted preventing the Ramptons from selling the Mark III.
- [24] Bennett & Philp ceased to act for Mr Power and Foxworth in late 2004. A notice of change of solicitors was filed on 6 December 2004. The plaintiffs in the 2002 Proceeding subsequently amended their claim and statement of claim to allege that they were entitled to be registered as owners of the patent over the Mark III.<sup>17</sup>
- [25] On 24 December 2004, following an application by the Ramptons, Byrne SJA ordered the variation of the terms of the injunction so that machines could be sold to Bettergrow.
- [26] On 4 January 2005, Mr Power’s new solicitors sent a letter to Bettergrow’s solicitors threatening to join it as a defendant to the 2002 Proceeding if it purchased the Mark III machines.
- [27] In June 2005, an agreement was reached between Polwood, Polwood Aussie Bark and Bettergrow for the sale of the Mark III. By October 2005, the agreement was being finalised. On 18 November 2005, there was a meeting between Lea Rampton and Neil Schembri, of Bettergrow.
- [28] Following an unsuccessful mediation, the matter went to trial before Muir J (as his Honour then was) and on 10 July 2006, his Honour found, *inter alia*, that Polwood and Foxworth were joint inventors.<sup>18</sup>
- [29] Polwood challenged that finding on appeal. In dismissing Polwood’s appeal, the Full Federal Court found, at [6]:

“The machines were built in three stages. Power and Kemp utilised the concept by building prototypes including a working prototype called the Mark II or PSU. The PSU/Mark II was built by Kemp and installed at Maryborough during the currency of the licence. Polwood says that it contributed instructions to Foxworth but accepts that Foxworth contributed independently to the design of the PSU/Mark II.

... After the licence expired, Rampton made extensive modification to the PSU/Mark II, creating the ‘modified PSU’ or the ‘modified Mark II’. Polwood then filed the provisional patent application. After the patent application was filed, Rampton built an apparatus called the Mark III (also known as the “Replica PSU” and “PSU Mark III”). The primary judge found that the Mark III was not merely a copy of the PSU/Mark II. The claims of the patent application encompass the Mark III and PSU/Mark II machines.”<sup>19</sup>

<sup>16</sup> First Power Affidavit, EX PDPD 1, p 173.

<sup>17</sup> Transcript, Day 1, lines 30- 32.

<sup>18</sup> *Foxworth Pty Ltd v Polwood Pty Ltd* [2006] QSC 185 at 262.

<sup>19</sup> *Polwood P/L & Ors v Foxworth P/L & Ors* [2008] FCAFC 9.

- [30] Mr Power gave oral evidence before me that the Mark II remained on the Ramptons' property until August 2006, from which date Mr Power took possession of the machine.<sup>20</sup>
- [31] The Full Federal Court also found that it was only after its construction of the PSU/Mark II by Foxworth that Rampton created the replica PSU/Mark II with his own modifications. It was found that each of the PSU/Mark II, the modified PSU and the Mark III are within the scope of the claims of the patent application.<sup>21</sup>
- [32] The court upheld Muir J's findings that Foxworth and Polwood were joint inventors, holding the Patent in equal shares.
- [33] By a deed dated 16 August 2010, Polwood Aussie Bark Pty Ltd assigned its ownership rights in respect of the patent application to PDP and Mr Power. PDP and Mr Power became the sole registered proprietors of the patent on 26 April 2012 for the invention entitled "Plant Growth Medium".

### **2012 Proceeding**

- [34] The 2012 Proceeding was commenced by claim and statement of claim filed 30 August 2012 by Mr Power and PDP against Bettergrow, Mr Neil Schembri and Mrs Lorraine Schembri. The relief claimed is:
- "1. A declaration that Australian Letters Patent No. 2010227018 has been infringed by the Defendants;
  2. An order that each of the Defendants be restrained, whether by themselves, their servants, agents or otherwise during the term of the Patent from:
    - (a) Manufacturing or otherwise dealing with any apparatus that possesses the features set out in the claims of the Patent, including the Apparatus Claims;
    - (b) Manufacturing or selling or offering to sell any Plant Growth Medium or other produce which possess the features set out in the claims of the Patent, including the Method Claims;
  3. An order that each of the Defendants be restrained, whether by themselves, their servants agents or otherwise from licensing or authorising any third party to do any of the acts sought to be restrained by 2 above;
  4. An order for delivery up to the Plaintiffs or their nominated agent, by the First Defendant and, or alternatively, by the Second Defendant and Third Defendant, of the Mark II and all copies thereof, as well all Plant Growth Medium in the possession, or under the control, of the Defendants;
  5. Damages for, or alternatively and at the Plaintiff's option, an account of profits made by each of the Defendants infringement of the Patent pursuant to the *Patents Act 1990*;
  6. Interest pursuant to section 47 of the *Supreme Court Act 1995*;

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<sup>20</sup> Transcript, Day 1, p 29, line 14.

<sup>21</sup> *Polwood P/L & Ors v Foxworth P/L & Ors* [2008] FCAFC 9.

7. Costs;
  8. Such further or other orders as the Court thinks fit.”
- [35] In summary, the Statement of Claim in the 2002 Proceeding alleges that:
- i. In or about June 2005 Bettergrow commenced using the Mark III to produce plant growth medium, pursuant to an agreement with Polwood (paras 20 and 21);
  - ii. In or before July 2006, Polwood or alternatively Bettergrow permitted Mr Schembri and Ms Schembri to exploit the Mark III (para 22);
  - iii. Bettergrow, Mr Schembri and Ms Schembri infringed the patent and have continued to infringe the patent by possessing the Mark III, using the Mark III to product plant growth medium, and selling plant growth medium produced by the Mark III (para 25).
- [36] Mr Philp wrote to the solicitors for PDP and Mr Power on 13 September 2012, informing them that he had been retained to act for Bettergrow and expected to receive instructions to act for Mr Schembri and Ms Schembri. By letter dated 21 September 2012, Mr Philp advised the solicitors for Mr Power and PDP that he had instructions to act for the Schembris.
- [37] On 24 September 2012, the solicitors for Mr Power and PDP wrote to Mr Philp by email, stating:
- “[W]e have today been advised that your firm is in a position of conflict in this matter having previously acted for our client in relation to the intellectual property the subject of the current proceedings”.
- [38] On 9 October 2012, Bennett & Philp filed defences and counterclaims on behalf of Bettergrow and Mr and Mrs Schembri. These defences and counterclaims alleged, in summary, that:
- (a) The Mark III does not infringe the Patent because it does not incorporate the essential integers of the claims of the Patent;
  - (b) The claims in the Patent are invalid because they:
    - i. Do not involve an inventive step when compared to the prior art base;
    - ii. Fail to disclose the best known method of performing the invention; and
    - iii. Are not clear, succinct and fairly based on the matters described in the specification of the Patent
  - (c) Each of Bettergrow, Mr Schembri and Ms Schembri were not on notice of any right of PDP and Mr Power in respect of the patent.
- [39] Mr Philp gave oral evidence at the present hearing that he had not considered the argument that Mark II defeated the novelty of the Patent when drafting the Defences.<sup>22</sup>
- [40] By letter dated 24 October, the solicitors for PDP and Mr Power replied to Bennett & Philp. Mr Philp responded by way of letter dated 24 October. It emerged during cross-examination of Mr Philp that the Mark III was in suit in the copyright action

<sup>22</sup> Transcript, Day 1, p 44, lines 43 – 44.

in the 2002 Proceeding at the time that Bennett & Philp acted. Correspondence between these firms continued for several months.

- [41] The reply and answer to the defence and counterclaim of the second and third defendants was filed on 7 November 2012. Bennett & Philp wrote again to Elliott May Lawyers on 26 February 2013 referring to their recent correspondence. The firm purported to give an undertaking not to disclose:

“[the confidential] documents or their contents to any of our present clients, the three defendants for whom we act in this present action while your clients’ threatened application remains to be finalised. Thereafter, we will not disclose the contents of those documents to the court without the leave of the Court or your client’s consent first being obtained.”

### **Application to restrain Bennett & Philp from acting**

- [42] The present application to restrain Bennett & Philp from continuing to act was filed on 7 March 2013.

- [43] Counsel for PDP and Mr Power argued that Bennett & Philp should be restrained from acting in the 2012 Proceeding because that firm obtained confidential information from Foxworth and Mr Power during the course of its retainer in the 2002 Proceeding, and this confidential information may be used against PDP and Mr Power in the 2012 Proceeding.

- [44] It was contended that three categories of confidential information are in the possession of Bennett & Philp:

- i. Instructions from Mr Power about the validity of the Patent. These instructions were recorded in a document entitled “General”.
- ii. Instructions from Mr Power in 2004 concerning the proposed purchase of the Mark III by Bettergrow Pty Ltd (“Bettergrow”).
- iii. Instructions about the operation of Mark III.

- [45] Counsel for Bennett & Philp argued that the information identified as confidential by the applicants could serve no legitimate or sensible forensic purpose or provide any tactical advantage to any defendant who might gain access to that material.<sup>23</sup>

- [46] In the course of the hearing before me, Mr Philp offered an undertaking not to disclose the confidential information in the following terms:

- “1. Upon the expiry of the relevant appeal period (or pending any appeal decision) in relation to the decision of the Court in this proceeding, Bennett & Philp (B & P) will destroy its entire e-file held in respect of it acting for Mr Power et al in the “Copyright Proceedings”, and any copies of documents from that e-file.
2. Pending destruction of the e-file pursuant to order 1, I will not provide the “Background” or “General” document to the Defendants in the Patent Proceedings or any other person or entity.
3. I will not use or permit the Defendant in the Patent Proceedings to use in any way whatsoever any of the matters identified in the following documents as a

<sup>23</sup> Respondent’s Outline of Submissions: [32], [38].

basis for, or part of, any allegation of invalidity of the Patent in the Patent Proceedings:

- (a) para 2 end 4(b)(i) to (vi) in the “General” document;
  - (b) para 29 to 33 of the “Background” document;
  - (c) the documents referred to para 84(a), (b), (c), (d) and (f) of the Applicant’s submissions,
4. The Court notes that Mr Philp may access a single copy of the documents referred to in Undertakings 2 and 3 for the purpose of ensuring compliance with the undertakings, and such documents are to be kept on the Court file in this proceeding in a separate envelope, (sic) Mr Philp’s access to such envelope shall only be permitted with the leave of a Judge of this Court, with 7 days notice of such application to the Plaintiffs.
5. The court notes that these Undertakings do not operate to preclude the Defendants in the Patent Proceedings from amending their cross-claim to include an allegation of invalidity based on lack of novelty by reason of prior user by the Mark II device.”

[47] The applicants sought to rely on three grounds as the basis for restraining the respondent from acting:<sup>24</sup>

- (a) Protection of confidential information;
- (b) Due administration of justice;
- (c) Breach of the fiduciary duty of loyalty.

### **Protection of confidential information**

[48] It is well established that the court has jurisdiction to restrain a solicitor from acting against a former client if the solicitor possesses confidential information of that former client.<sup>25</sup>

[49] A solicitor ought to be restrained from acting against a former client if there is a risk that the solicitor will disclose the information to the new client or if there is a risk that the solicitor will use the confidential information against the former client.<sup>26</sup> A solicitor should be restrained where there is a “real and sensible” possibility that the solicitor may disclose confidential information or use it to the detriment of a former client.<sup>27</sup> There is no requirement to show a substantial risk of misuse or disclosure of confidential information; the risk must simply be real, as opposed to fanciful or theoretical.

[50] It is not necessary for the solicitor to recall the confidential information that was imparted in the course of the previous retainer.<sup>28</sup> Relevant confidential information

<sup>24</sup> See: *Ismail-Zai v Western Australia* (2007) 34 WAR 379 at 19 (Steytler P).

<sup>25</sup> *Rakusen v Ellis; Munday & Clarke* [1912] 1 Ch 831 at 835 (Cozens-Hardy MR); at 840 (Fletcher-Moulton LJ); at 842 (Buckley LJ); *Ismail-Zai v Western-Australia* (2007) 34 WAR 379 at [19] (Steytler P, with whom Wheeler JA agreed).

<sup>26</sup> *Prince Jefri Bolkiah v KPMG (a firm)* [1999] 2 AC 222 (Lord Millett at 235 – 236).

<sup>27</sup> *Mallesons Stephen Jacques v KPMG Peat Marwick* (1990) 4 WAR 357 at 362 – 363 (Ipp J); *Farrow Mortgage Services Pty Ltd (in liq) v Mendall Properties Pty Ltd* [1995] 1 VR 1 at 5 (Ipp J).

<sup>28</sup> *Ismail-Zai v Western Australia* (2007) 34 WAR 379, 27.

may include information concerning the strategy for running the case, the way in which the former client understands the case, or the evidence in the case.<sup>29</sup>

- [51] It is appropriate now to consider the bases upon which the applicant contended that the respondent ought to be restrained from acting.

### **Information relating to the validity of the patent**

- [52] PDP and Mr Power submitted that Bennett & Philp was in possession of confidential information relating to the validity of the patent, which was contained within the “General” document.

- [53] Counsel for Bennett & Philp submitted that the contents of the “General” document were not confidential because the Patent had already been invalidated, on the basis that the Mark II had been used before the earliest priority date. The respondent also argued that the document was not confidential because its confidentiality was not raised in the original defence. Mr Philp gave oral evidence to the effect that he had not looked at the document at the time that he drafted the defences and counterclaims in the 2012 Proceeding.<sup>30</sup>

- [54] There was nothing to suggest that the information contained within the “General” document has lost its confidentiality due to public disclosure. The “General” document amounted to confidential and privileged instructions by Mr Power to Bennett & Philp at the time that it was acting for Mr Power and his company in the 2002 Proceeding.

- [55] Counsel for the respondent also submitted that the confidential information was not relevant to the 2012 Proceeding. The respondent contended that expert evidence would be the main vehicle by which patent infringement and patent invalidity claims would be advanced in the 2012 Proceeding.<sup>31</sup> In oral submissions, counsel for the respondent argued that Mr Philp would be obliged not to use the information in his possession to direct any expert witness in the 2012 Proceeding.<sup>32</sup>

- [56] A solicitor should be restrained from acting against a former client where it is in possession of confidential information and where there is a real risk that this information would be used to the detriment of the former client. The test was stated by Lord Millett (with whom the other members of the House of Lords agreed) in *Prince Jefri Bolkiah v KPMG (a firm)*<sup>33</sup>:

“...the court should intervene unless it is satisfied that there is no risk of disclosure. It goes without saying that the risk must be a real one, and not merely fanciful or theoretical. But it need not be substantial.”<sup>34</sup>

- [57] The respondent purported to rely upon the test propounded by Goldberg J in *Photocure ASA v Queen’s University at Kingston* [2002] FCA 905 at 50<sup>35</sup> which articulated the three stages to be considered in assessing whether a solicitor should

<sup>29</sup> *Farrow Mortgage Services Pty Ltd (in liq) v Mendall Properties Pty Ltd* [1995] 1 VR 1.

<sup>30</sup> Transcript, Day 1, p 45, line 14.

<sup>31</sup> Respondent’s outline of submissions: [29].

<sup>32</sup> Transcript, Day 2, p 64, line 46.

<sup>33</sup> [1999] 2 AC 222 at 236 – 237

<sup>34</sup> [1999] 2 AC 222 at 236 – 237.

<sup>35</sup> [2002] FCA 905 at 50: The test propounded by Goldberg J is a restatement of Lord Millett’s approach in *Prince Jefri*..

be restrained from acting against a former client. The first is whether the firm is in possession of information which is confidential to the former client. The second is whether that information is, or may be, relevant to a matter in which the firm is proposing to act for another party with an interest adverse to the former client. The third is whether there is any risk that the information will come into the possession of those persons in the firm working for the other party. On the facts of this case, the third limb is not relevant. The burden of establishing the first two propositions is upon the former client but the burden of establishing the third proposition moves to the firm proposing to act once the first two propositions are satisfied.<sup>36</sup> The correct approach is one which encompasses a “broad assessment of the facts” of the case.<sup>37</sup> An approach which involves too close an examination of the facts of the case risks destroying the confidentiality of the information in question.

[58] Counsel for the respondent, however, actually sought to advance a different approach to that which is favoured by the authorities. Counsel for the respondent took me through the information in order to dispel the suggestion that the information could be used in a prejudicial way against Mr Power.<sup>38</sup> In its submissions, the respondent sought to disprove the relevance of the information in question on the basis that it would be of no strategic value to the defendants in the 2012 Proceeding. In doing so, it seems to me that the respondent relied upon an approach which casts the test for determining “risk” too highly. The question of whether the information in question is of strategic value to the party acting against a former client goes beyond the principal question of whether or not there is a real risk that that information may be used against the former client.

[59] I do not accept the respondent’s submissions that the contents of the “General” document are not relevant to the question of the Patent’s invalidity in the 2012 Proceeding. Under cross-examination, Mr Philp gave evidence that his firm had possession of the document,<sup>39</sup> and that the document was contained in an electronic file accessible by any member of the firm with access to the file number. There is nothing to prevent Mr Philp from using his knowledge in a manner that would influence the direction of the case against Mr Power, either subconsciously or through directions given to a witness. On the contrary, given the nature of the present dispute and the similarity of issues with the previous dispute, there is a palpable risk that, even unconsciously, Mr Philp might use information contained within the “General” document against Mr Power and PDP in the 2012 Proceeding, because it relates directly to the central issue in the present dispute, namely, the question of the invalidity of the Patent.

### **Information relating to the operation of the Mark III**

[60] PDP and Mr Power submitted that Bennett & Philp was in possession of confidential information relating to the operation of the Mark III. Although Mr Power deposed to not being able to recall the precise instructions that he had provided to Bennett & Philp, the nature of the instructions appears from certain documents exhibited to a confidential affidavit of Mr Power. I do not accept that

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<sup>36</sup> *British American Tobacco Australia Services Lts v Blanch* [2004] NSWSC 70 at 35.

<sup>37</sup> *British American Tobacco Australia Services Lts v Blanch* [2004] NSWSC 70 at 115.

<sup>38</sup> Transcript, Day 2, lines 37 – 40.

<sup>39</sup> In a letter dated 24 October 2012, Mr Philp wrote to Elliott May Lawyers on behalf of Bennett and Philp, maintaining that the firm was not in possession of the document headed ‘General’.

the confidentiality of this information has been lost due to any evidence given by Mr Power in the past.

- [61] In his letter to Elliott May Lawyers, Mr Philp contended that the Mark III had never been in suit at the time that he acted for Foxworth. Under cross-examination, Mr Philp conceded that the Mark III had been in the subject of the copyright infringement claim in the 2002 Proceeding at the time that Bennett & Philp represented Foxworth.
- [62] I do not accept the respondent's submission that this information is not relevant to the issue of the Patent's invalidity in the 2012 Proceeding. The issues in the copyright proceeding concern similarities between the Mark II and the Mark III. This information is directly relevant to determining the invalidity or otherwise of the Patent. Again, there is a palpable risk that, even unconsciously, the confidential information relating to the operation of the Mark III may be used to the detriment of the plaintiffs in the 2012 Proceeding.

### **Bettergrow purchase information**

- [63] PDP and Mr Power submitted that Mr Power sought advice from Bennett & Philp as to how best to protect its interests, in light of the evidence that fell from Mr Rampton's affidavit dated 17 August 2004. During the course of that advice, Mr Power also discussed with Mr Sawyer his previous dealings with Bettergrow in respect of the proposed sale of a sterilising unit. The applicants submitted that there was communication of instructions and advice about a potential dispute with Bettergrow. Those instructions, as well as the advice given by Mr Sawyer, were confidential and subject to legal professional privilege. The applicants submitted that, based on correspondence dated 4 January 2005 and 24 August 2006, Bettergrow and Mr Schembri were put "on notice" of Mr Power's and Peachester's rights in the patent application.<sup>40</sup>
- [64] I am not persuaded that the relevance of the Bettergrow purchase information is confined to the question of the ownership of the Mark III in the period between August to December 2004. The Bettergrow Purchase information is relevant to the defendants' allegation in the 2012 Proceeding that there was no concluded agreement to purchase the Mark III in July 2004.<sup>41</sup> It is also relevant to the allegation by Mr Power and PDP that the defendants were put on notice of their rights in respect of the patent application, which the defendants deny.<sup>42</sup>
- [65] For the reasons I have mentioned, it seems to me that the applicants have clearly demonstrated that the respondent is in possession of confidential information from their former client, Mr Power, and there is a real risk that that information could be used to the detriment of Mr Power in the 2012 Proceeding.

### **The effect of the undertaking**

- [66] During the course of oral submissions, Mr Philp offered an undertaking to the effect that he would not disclose any of the confidential information of PDP and Mr Power

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<sup>40</sup> SOC: [18], [23]

<sup>41</sup> Defences, para 10.

<sup>42</sup> Defences, para 12(d).

in the 2012 Proceeding. The terms of the proposed undertaking are noted at [46]. Counsel for the applicants submitted that the proffered undertaking was insufficient to counter the risk of the confidential information being used against the former client, and referred to *Farrow Mortgage Services Pty Ltd (in liq) v Mendall Properties Pty Ltd*.<sup>43</sup> It was submitted that Mr Philp’s knowledge would “subconsciously colour the approach of the solicitors and the performance of their tasks in acting against their former clients”.<sup>44</sup> It was also argued that Mr Philp could direct expert witnesses in light of his knowledge of confidential information. Counsel for the respondent sought to distinguish the nature of the confidential information in dispute in *Farrow* from the confidential information in the present case.

[67] In *Farrow*, the confidential information in question comprised:

“...a briefing paper given to it on behalf of F.M.S. which deals with actions of the very kind now in issue in which it seeks to act against F.M.S. That briefing paper consider[ed] issues directly touching litigation of the present kind in which the firm [sought] to act against its former client; indeed the paper consider[ed] issues relating to one of the very defences which the third and fourth defendants [sought] to maintain against the former client of the firm.”<sup>45</sup>

[68] Hayne J found:

“It is clear... that a reasonable person, informed of the facts, might reasonably anticipate a danger of the misuse of confidential information and that there is a real and sensible possibility that the interest of the firm in advancing the case of the third and fourth defendants in the present proceeding might conflict with its duty to keep the information given to it by its former client confidential and to refrain from using that information to the detriment of its former client”.

[69] The confidential information held by Bennett & Philp in the present case is directly relevant to the issues raised in the defence and counterclaims in the 2012 Proceeding. I am not persuaded that an undertaking would be sufficient to counter the real risk of Mr Philp using, even unconsciously, confidential information against Mr Power and PDP. On the basis of Mr Philp’s knowledge of this information, there remains a real risk that, even with the imposition of an undertaking, this information would subconsciously influence the case against Mr Power and PDP.

[70] The risk of the subconscious use of confidential information is sufficient to restrain a solicitor from acting against a former client. In *Gillies v Dibbets*,<sup>46</sup> Helman J referred to *Australian Commercial Research and Development Ltd v Hampson*,<sup>47</sup> and then said:<sup>48</sup>

“If [the solicitor’s memory remains in its present state, then it may be accepted that he could not consciously misuse any confidential information he may have been given by the second defendants. If his memory were to return he would, no doubt, withdraw from the proceeding. But the

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<sup>43</sup> [1995] 1 VR 1.

<sup>44</sup> Transcript, Day 2, p 20, lines 15 – 18.

<sup>45</sup> *Farrow Mortgage Services Pty Ltd (in liq) v Mendall*, 35.

<sup>46</sup> [2001] QSC 459.

<sup>47</sup> [1991] 1 Qd R 508.

<sup>48</sup> [2001] QSC 459.

difficulty remains that he could subconsciously avail himself of information he had obtained when consulted by the [former client] ...”

- [71] The confidential information in the possession of Mr Philp pertains directly to central issues in dispute in the 2012 Proceeding, namely, the question of the Patent’s validity.
- [72] I am not satisfied that the undertaking would be sufficient to protect against the real risk of Mr Philp resorting subconsciously to knowledge obtained during the course of his retainer with Mr Power and PDP in the 2002 Proceeding.

### **Duty of loyalty**

- [73] In light of my views on the confidential information which is in Mr Philp’s possession, it is unnecessary for me to dwell on the applicants’ arguments concerning the solicitor’s duty of loyalty surviving the termination of the retainer. During oral submissions, counsel for the respondent conceded that, should his submissions on the confidential information point fail to satisfy me, there would be no basis upon which to challenge the extension of the duty of loyalty.<sup>49</sup>

### **Due administration of justice**

- [74] It is necessary to comment briefly on the applicant’s submissions on the due administration of justice. The court has a jurisdiction to restrain a solicitor from acting when the due administration of justice requires such an intervention. Lord Millett has said that the court should intervene unless it is satisfied that there is no risk of disclosure of confidential information.<sup>50</sup> In *Kallinicos v Hunt*, Brereton J articulated the test in the following terms:<sup>51</sup>

“The test to be applied in this inherent jurisdiction is whether a fair-minded, reasonably informed member of the public would conclude that the proper administration of justice requires that a legal practitioner should be prevented from acting, in the interests of the protection of the integrity of the judicial process and the due administration of justice, including the appearance of justice...”

- [75] The applicants made two submissions. First, it was contended that the administration of justice would be undermined if Bennett & Philp, having written the letter of 18 August 2004 to Bettergrow, were permitted to maintain that the letter was insufficient to protect the rights of Mr Power and PDP. It was also submitted that the appearance of Bennett & Philp changing sides would undermine the administration of justice in the eyes of a reasonable-minded person.
- [76] The principle of the due administration of justice overlaps with the solicitor’s duty not to disclose confidential information of a former client. It was submitted that Mr Sawyer of Bennett & Philp wrote to Bettergrow in 2004, putting Bettergrow on notice of its clients’ rights. It was submitted that the extent to which Bettergrow was on notice of those rights was in issue in the 2012 Proceeding.<sup>52</sup> During cross-

<sup>49</sup> Transcript, Day 2, p 32, line 12.

<sup>50</sup> *Prince Jefri Bolkiah v KPMG (a firm)* [1999] 2 AC 222.

<sup>51</sup> (2005) 64 NSWLR 561 at 76.

<sup>52</sup> Transcript, Day 1, p 16, line 4.

examination, Mr Power stated that he sought advice from Bennett & Philp about his proprietary rights against the Ramptons in early 2004.

- [77] On the basis of the evidence that fell during the hearing before me, I am persuaded that it would be contrary to the administration of justice if Bennett & Philp were permitted to maintain that the letter it wrote to Bettergrow on behalf of Mr Power and Foxworth was insufficient to protect Mr Power and PDP's proprietary rights over the Mark III.

### **Conclusion**

[78] Accordingly, there will be the following orders:

1. The respondent is restrained from acting as solicitors against the applicants, as plaintiffs, in Supreme Court Proceeding No 7582 of 2012.
2. I will hear the parties as to costs.