DIRECTORS' AND PARTNERS LIABILITY FOR AN ACCOUNT OF PROFITS – PURSING THE FULL MEASURE OF RELIEF

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A discussion on the novel point whether directors are jointly and severally liable for profits made by the company, 'authorising' and 'common design' after the Chancery Division's 23 March 2020 judgment in Lifestyle Equities v Santa Monica Polo Club [2020] EWHC 688 (Ch)"

1. A broad distinction can be drawn between compensatory and gain-based awards in the law of pecuniary remedies. An account of profits is an equitable remedy for disgorging unauthorised gains that has been neglected in the literature, leading to the distinct possibility that litigants and their advisers will fail to identify and pursue the full measure of relief. The remedy is diverse and includes the broad categories of breach of fiduciary duty, breach of confidence, intellectual property infringement and gain-based remedies for common law wrongs. It has long been acknowledged that the account of profits could give the innocent party more than he had lost.

2. The theory is that it is unconscionable for an infringer to retain a benefit which he received by the appropriation of and use of a claimant's property right. To prevent unjust enrichment, an infringer is treated as a trustee of his ill-gotten gains. Accountability for profits is peculiarly personal, as equity acts on the conscience of the infringer. It follows that the infringer is accountable only for the profits he has received, not for the profits that may have been received by a co-infringer.

3. Where the infringement is made by a partnership, the partners are jointly accountable for the whole of the profit made by the partnership. What one partner receives is received by all and what one partner does grounds liability against all partners. The liability to account for profits depends on who is liable; and who has received what, which is dependent on the relationship between an actual recipient and another.

4. Something less than partnership may tick the boxes depending on the facts. If A and B agree to exploit a proprietor's copyright or registered trade mark, do so, and agree to split the profits, what happens then? The claim for infringement is to vindicate the property right. The requirement to account for profits is because the tortfeasor has used the claimant's property. Both have infringed the property right and both have received the profits to be divided between them. Both are liable to account.

5. The profits made by the infringer bear no relation to the damages suffered by the proprietor. The proprietor may have made no effort to exploit his intellectual property right, for example, in which case he is not deprived of a gain he otherwise would have made but for the infringement. It makes no difference how the infringers may have divided the profits amongst themselves. What matters is that they have unlawfully deprived someone else of profits which rightfully should have been his. The total profits resulting from the misappropriation is a measure of the wrong done, albeit a not entirely accurate one.

6. There is a difference between exploitation of property rights belonging to another and cases of a fiduciary. In assessing the profits to which an errant fiduciary is entitled, a distinction is drawn between those cases in which a specific asset is acquired by the fiduciary and those in which a business is acquired and operated. In the case of a business, it may well be inequitable to compel the fiduciary to account for the whole of the profit of his conduct of the business or his exploitation of the principal's goodwill over an indefinite period. The High Court of Australia were agreed in *Warman International v Dwyer (1995) 182 CLR 544* that the stringent rule requiring a fiduciary to account for profits should not be applied in a manner which makes it a vehicle for the unjust enrichment of the claimant. In such a case it may be appropriate to allow the fiduciary a portion of the profits, depending on the particular circumstances. Where there is a joint enterprise to exploit, who has received what depends on the relationship between them and what their agreement or arrangement is.

7. In a recent judgment of wide application to intellectual property and other claims where an account of profits is available, the Chancery Division Intellectual Property court has held that where directors of a company are jointly and severally liable for acts of infringement by the company, they are only liable to account for profits which they had made personally and not for the profits made by the company.

8. *Lifestyle Equities CV v Santa Monica Polo Club Ltd and others[2020] EWHC 688 (Ch) (23 March 2020, Douglas Campbell QC sitting in the High Court) was first heard in [2017] EWHC 3313 (Ch)*, when claims for registered trade mark infringement were decided against the defendant company, D11,which was found to have infringed the claimants' mark. The second trial included consideration of the relatively conventional issues whether, infringement having been found, directors of D11 (D5 and D12) had authorised D11's acts of infringement and done so pursuant to a common design. The claimants elected for an account of profits and not an inquiry as to damages. Settlement had been reached with the other defendants.

9. A relatively novel point raised at the second trial was whether even if D5 and D12 were jointly and severally liable for authorising D11's acts of infringement pursuant to a common design or otherwise, they were nevertheless not liable to the claimants for the profits made by D11. The difference was their joint and several liability for £3.13m if D5 and D12 were liable for the profits of D11 and £780,000(D5) and £57,000 (D12) if they were not.

10. On' authorising', the leading decision of the House of Lord's in *CBS Songs v Amstrad Consumer Electronics [1988] AC 2013* was considered by Kitchin J (as he then was) in *Twentieth Century Fox v Newzbin [2010] FSR 21 at [85]-[95]*. Both were copyright cases but the reasoning is not so limited. Kitchin J held in *Newzbin* at [90]:

> *"In my judgment it is clear from this passage that "authorise" means the grant or purported grant of the right to do the act complained of. It does not extend to mere enablement, assistance or even encouragement. The grant or purported grant to do the relevant act may be express or implied from all the relevant circumstances. In a case which involves an allegation of authorisation by supply, these circumstances may include the nature of the relationship between the alleged authoriser and the primary infringer, whether the equipment or other material supplied constitutes the means used to infringe, whether it is inevitable it will be used to infringe, the degree of control which the supplier retains and whether he has taken any steps to prevent infringement. These are matters to be taken into account and may or may not be determinative depending upon all the other circumstances."*

11. As for 'common design', the leading case is the Supreme Court's decision in *Fish & Fish Limited v Sea Shepherd UK [2015] AC 1229* in which the court was split on the facts, but not on the law: see Lord Neuberger at [61] and the 3 materially identical formulations of the test at [21], [37] and [55], with [55] set out below:

> *"It seems to me that, in order for the defendant to be liable to the claimant in such circumstances, three conditions must be satisfied. First, the defendant must have assisted the commission of an act by the primary tortfeasor; secondly, the assistance must have been pursuant to a common design on the part of the defendant and the primary tortfeasor that the act be committed; and, thirdly, the act must constitute a tort as against the claimant...."*

12. Lord Neuberger also made the point in *Sea Shepherd* at [57] that:

> *"...once the assistance is shown to be more than trivial, the proper way of reflecting the defendant's relatively unimportant contribution to the tort is through the court's power to apportion liability, and then order contribution, as between the defendant and the primary tortfeasor."*

See also Lord Sumption at [49] and Lord Mance at [100], making the same point.

13. Prior to *Lifestyle Equities* there was surprisingly little authority on the question whether if A is jointly and severally liable with B, A is liable for profits made by B. It was not in issue in *Sea Shepherd* and while it had been raised *in Hotel Cipriani*

v Cipriani Grosvenor Street [2010] EWHC 628 (Ch), the defendants in that case were not represented at the trial, did not make any written or oral submissions, did not call any evidence, and no authority was cited. Briggs J (as he then was) stated in *Hotel Cipriani* at [7]:

> *"I must first deal with the relevant legal principles. By contrast with joint liability as tortfeasors for damages, including damages calculated on a royalty basis, an account of profits operates against each defendant separately, requiring him or it to disgorge such profits as are shown to have been derived by that defendant from the relevant infringements. In that respect, there is no difference between trademark infringement and passing off, even though the basis of liability for one is statutory and, for the other, based on the common law… The measure of liability is the profit derived by the defendant from the infringement."*

14. Briggs J's statements in *Hotel Cipriani* were supported by Paul Davies, Professor of Commercial Law at UCL, in *Accessory Liability* (2015), at pp 264-267, who suggested that *"… making the accessor account for profits which he or she never actually made seems very harsh",* although he acknowledged that this "*very harsh*" approach is supported by the Canadian case, *Canada Safeway Ltd v Thompson [1951] 3 DLR 295 (BCSC)* and some first instance English cases *(Ostrich Farming Corp Ltd v Wallstreet LLC (8 October 1998, unreported)* and *Comax Secure Business Services Ltd v Wilson (HHJ Seymour QC, 21 June 2001, unreported)).* Professor Davies drew attention to more recent first instance English cases departing from it *(Ultraframe (UK) Ltd v Fielding [2005] EWHC 1638 (Ch)* Lewison J as he then was, at [1595]-[1600]; and *Novoship (UK) Ltd v Mikhaylyuk [2012] EWHC 3586,* Christopher Clarke J, as he then was).

15. It was held in *Lifestyle Equities* that Briggs J's statements in *Hotel Cipriani* were a necessary, albeit uncontested, part of his reasoning.

16. *Ultraframe* and *Novoship* were cases about fiduciaries and dishonesty. The issue of fiduciaries raises different legal considerations to the question regarding those who are merely jointly and severally liable. In *Lifestyle Equities* where the claimants did not rely on dishonesty as part of the basis for joint and several liability, however, it was held that the underlying point of principle is the same and that there is no equity to compel A to account for B's profit where A has not made that profit and the innocent party has suffered no loss. The profits were never in the hands of D5 or D12.