H. C. OF A. 1920.

KING v. COMMERCIAL BANK OF AUSTRALIA LTD.

Rich J.

In the circumstances I consider that the applicant—an impecunious litigant—having had the benefit of a decision of the Full Court of Victoria, is, in the words of the judgments in *Swain* v. *Follows* (1), indulging in the luxury of an appeal to this Court and is dragging the respondent from one Court to another while engaged in another appeal to the Full Court of the State of Victoria against the same respondent in respect of a matter arising out of the same transaction, and that after lengthy and costly litigation.

I therefore refuse the application so far as it relates to the reduction.

Application dismissed.

Solicitor for the appellant, *Coy*.

Solicitors for the respondent, *J. M. Smith & Emmerton*.

B. L.

(1) 18 Q.B.D., 585, at pp. 587-588.

[HIGH COURT OF AUSTRALIA.]

IN RE PATENT OF TRUFOOD OF AUSTRALIA LIMITED.

H. C. OF A. 1920.

ON APPEAL FROM THE HIGH COURT IN ORIGINAL JURISDICTION.

MELBOURNE, *June* 10, 11; *Aug.* 17.

Patent—Extension—Adequate remuneration—Profits—Goodwill—Patents Act 1903-1909 (*No.* 21 *of* 1903—*No.* 17 *of* 1909), *sec.* 84.

Starke J.

Oct. 28, 29.

A company which was formed to operate and did operate a patent substantially for converting milk into a dry powder had, during a period of ten years covering the whole of its existence, made an average profit of between 12½ and 15 per cent. per annum on the whole of its capital invested in the business, excluding the amount paid for the patent. On an application under sec. 84 of the *Patents Act* 1903-1909 for an extension of the term of the patent,

Knox C.J., Isaacs and Rich JJ.

Held, that the applicant had not been inadequately remunerated, and that the application should be refused. H. C. OF A. 1920.

Quære, whether the value of the goodwill of a business which consists of operating a patent should be taken into account in estimating the "profits made by the patentee as such" under sec. 84. IN RE TRUFOOD OF AUSTRALIA LTD.

Decision of *Starke* J. affirmed.

APPEAL from the High Court in its original jurisdiction.

A company registered under the *Companies Act* 1890 (Vict.), called "Trufood of Australia Ltd.," applied to the High Court, by petition under sec. 84 of the *Patents Act* 1903-1909, for an extension of the term of the letters patent granted on 12th September 1906 for a term of fourteen years from that date. The letters patent were granted to Merrel-Soule Co., a corporation of Syracuse, New York, and were assigned by it to Trufood Ltd., an English company, on 4th June 1910, which assigned it to the applicant Company on 12th May 1910. The material facts are stated in the judgments hereunder.

The petition was heard by *Starke* J.

Lowe, for the petitioner.

Cur. adv. vult.

STARKE J. delivered the following written judgment:—This is a petition by an incorporated company called "Trufood of Australia Ltd." presented to this Court on 12th March 1920 for the extension of letters patent for an invention for "Process and apparatus for recovering solids of liquids" granted in the Commonwealth on 12th September 1906 for the term of fourteen years from that date. The petition is based upon sec. 84 of the *Patents Act* 1903-1909. My brother *Isaacs*, in *In re Robinson's Patent* (1), examined and stated with great care and elaboration the principles which should guide the Court in proceedings of this character. I need do no more than refer to the provisions of sec. 84 of the Act and apply the principles so laid down to the facts of this case. Aug. 17.

The nature of the invention is best stated in the words of the specification: "This invention relates to process and apparatus

(1) 25 C.L.R., 116.

H. C. OF A. 1920.

IN RE TRUFOOD OF AUSTRALIA LTD.

Starke J.

for separating the moisture from the constituent solids of liquids and semi-liquids, and recovering such solids in the form of a substantially dry powder, which may, by the addition of suitable moisture, be reconstituted into a liquid or semi-liquid possessing all of the characteristics of the original liquid or semi-liquid." The process for recovering these solids described and claimed in the specification is, in essence, the conversion of the liquid into spray in the presence of a moisture absorbent. The moisture is thus separated from the constituent solids of the liquid, and the liquids are recovered in the form of a dry powder.

It is unnecessary for the purposes of this case to examine in detail the elaboration of the essential feature of the process in the various claims contained in the specification. And it is also unnecessary to refer to the complicated apparatus described in the specification for the working of the process. I doubt if the apparatus, as distinct from the process, is claimed. The process has been used in Australia substantially for the recovery of the solids in milk in the form of a dry powder. The powder is reconstituted, when desired, by the addition of water into a liquid having the characteristics of milk. The process has been operated with commercial success in Australia in the case of milk from which some of the cream has been separated by the common separator machines, but in the case of full cream milk the process cannot at present be called a commercial success. In the latter case the process works well enough, but the powder does not keep well and becomes rancid in a comparatively short period. The Court, in considering the merit of the invention, must have regard to "what was already known at the date of the letters patent," for otherwise "it is impossible to arrive at any adequate conception of the nature of the disclosure made by the patentee, and, in the same way, the value of this disclosure to the public cannot be altogether independent of the extent of inventive ingenuity required to arrive at the thing disclosed" (*In re Johnson's Patent* (1), per *Parker* J.).

Several processes are referred to in the petition for the production of dry milk powder, but it is only necessary to refer to two; the one known as the "Hatmaker" process, and the other as the "Stauf"

(1) 25 R.P.C., 709, at pp. 723-724.

process. The "Hatmaker" process is fully described in the case of *Hatmaker* v. *Joseph Nathan & Co.* (1), and the petitioner admitted that it is correctly set forth in those reports. The "Stauf" process is described in the petition itself.

Hatmaker obtained his milk powder by passing the milk over heated surfaces until the solid constituents of the milk were obtained, as he claimed, in a dry and unaltered condition. The patent was held bad for misrepresentation, because the solids obtained by the process "were not unaltered except by being dried. . . . When the solids were treated with hot water the effect was that the casein in the milk, the condition of which had been changed by the process, and the capacity of which for diffusion throughout the milk as a whole in a colloidal condition had been taken away from it by the operation of drying by this process, separated after a very short interval, and fell to the bottom of the mixture, the globules of milk fat that were in the preparation coalesced and rose to the top, and the result . . . was that there was fat at the top, then a quantity of fluid, and then at the bottom a precipitate of the casein which had been rendered practically insoluble by the process" (*Hatmaker* v. *Joseph Nathan & Co.* (2), per *Swinfen Eady* L.J.). The result was unfortunate for Hatmaker, because a milk powder was produced by his process which was used by confectioners, bakers and so forth, and with the addition of lactose, make a very popular infants' or invalids' food sold in Australia under the trade names "Glaxo" and "Lactogen."

The difficulty in Hatmaker's process was in reconstituting milk from the powder produced in the operation of his method. The Trufood process overcomes this difficulty to a very large extent. I, of course, accept Professor Osborne's evidence that the liquid reconstituted from the dry powder produced by this process, though not identical with cow's milk, is the nearest preparation to it that is known. The Stauf process consisted of converting milk into a fine spray and bringing such spray of atomized liquid into contact with an ascending current of heated air so that the liquid constituents are completely vaporized and the dry powder collected. The

(1) 34 R.P.C., 317; 35 R.P.C., 61.

(2) 35 R.P.C., at p. 71.

H. C. OF A. 1920.

IN RE TRUFOOD OF AUSTRALIA LTD.

Starke J.

principle of the Trufood process is here disclosed, but the mode of carrying it into practice is defective.

The facts may be summarized as follows: (1) the separation of the solid constituents of liquids, especially milk, and the recovery of those solids in the form of a dry powder was well known; (2) the principle of atomizing the liquid by means of a spray and bringing it into contact with a moisture absorbent (heated air) had been disclosed; (3) the Trufood process described a means by which the principle of the spray could be used practically with milk, and the powder thus obtained was so fine that, when water is added, the powder enters into what is known as a colloidal solution and gives the nearest known approach to cow's milk. Therefore, in relation to the public, the Trufood process has merit and utility.

I do not think, once the idea of atomizing the liquid by means of a spray and bringing it into contact with a moisture absorbent was hit upon, that the mode of carrying the principle into practice was surrounded with exceptional difficulties. But the ingenuity, merit and utility of the invention are sufficient to warrant an extension of the patent if other considerations are not unfavourable.

It is desirable now to state the history of the patent, and the terms on which it was acquired by the petitioner.

The actual inventors (L. C. Merrell, I. S. Merrell and W. Buell Gere) were employed by the Merrell-Soule Co. of New York, on terms that for a yearly compensation all inventions made by them should be assigned to the Merrell-Soule Co. of New York. This agreement was acted upon, and the Merrell-Soule Co. obtained the Australian patent as assignees of the actual inventors. The Merrell-Soule Co. on 21st April 1910 assigned the Australian patent and the British patents for the same invention to an English company called Trufood Limited. The consideration was (*inter alia*) 70,000 £1 shares, but no cash was paid. However, the Trufood Company had apparently acquired some interest in the Australian patent before the actual assignment, for it made an agreement with one de Boos for the formation of a company in Australia to take over and work the patent the subject of this petition, and also another patent. The terms are stated in an agreement dated 29th October 1909 and a letter dated 21st January 1910. The

petitioner, Trufood of Australia Ltd., was incorporated on 24th December 1909 with a capital of £50,000, divided into 50,000 shares of £1 ; and on 28th January 1910 an agreement was made between de Boos and the Australian company whereby the Company acquired the patents mentioned in the earlier agreement. The patent the subject of this petition was formally assigned on 12th May 1910, and the petitioner became registered as its proprietor on 15th September 1910. The English company under these agreements obtained from the petitioner £22,500 for the sale of the Australian patent rights—£5,000 in cash and the balance £17,500 in £1 shares credited as fully paid up. In addition, the petitioner allotted to de Boos or his syndicate 7,500 fully paid up £1 shares carrying a limited preference as to dividends. In the year 1913 the capital of the Australian company was reduced from £50,000 to £30,000, and the shares from £1 to 12s. The amount by which the capital of the Company was reduced was applied in writing off an accumulated loss of £11,493 11s. 5d. on the trading account, and the sum of £8,506 8s. 7d. from the book value of the patents owing to their depreciation by effluxion of time. The petitioner commenced building in 1910, and started operations on 26th June 1911.

Thus it appears that though the patent here involved was granted on 12th September 1906 yet it was not brought into use in Australia until 26th June 1911—a delay of four years and nine months. It is for the petitioner to show that it and its predecessors in title were diligent in launching the invention on the market (see *In re Dolbear's Patent* (1) ; *Henderson's Patent* (2) ; *In re Van Gelder's Patents* (3) ; *In re Johnson's Patent* (4)). I attribute no want of diligence to the petitioner, but the inactivity of its predecessors has not been explained. The interests of the public must be considered as well as the interests of the petitioner. If due activity had been used in pushing the invention, the amounts obtained from its use might have amounted to an adequate remuneration (see *In re Carl Pieper's Patent* (5)). The matter becomes of great importance in considering the amount of the

(1) 13 R.P.C., 203.
(2) 18 R.P.C., 449.
(3) 24 R.P.C., 169.
(4) 25 R.P.C., at p. 727.
(5) 12 R.P.C., 292.

H. C. OF A. 1920.

IN RE TRUFOOD OF AUSTRALIA LTD.

Starke J.

profits made from the use of the patent. The petitioner has kept very full accounts of its trading; but they require dissection for the purpose of determining the amount of the profits. It is not the duty of the Court to dissect the accounts, and in future it would be well if petitioners remembered the practice laid down in *In re Robinson's Patent* (1). But I do not reject the petition on this account, because the necessary figures can be extracted from the accounts presented without any great expenditure of time or energy.

The petitioner must show that he has been inadequately remunerated. "The sufficiency of the remuneration will be estimated "with a view to the importance of the invention and the benefit the public have derived from it" (*Terrell on Patents*, 5th ed., p. 232; *In re Robinson's Patent* (2)). Extension of a patent may be granted to an assignee, but the price he has paid for the patent is no measure of the adequacy of his remuneration for the purpose of an extension. Thus, in the present case, the petitioner acquired this patent and another (which does not seem to have been used) as a speculation for £30,000 in cash and shares. But the price was a mere flotation arrangement, and does not aid me in determining the importance of the invention or the benefit the public derived from it. The learned counsel for the petitioner put it that I should consider the return the petitioner got on the capital laid out by him; and he contended that the petitioner had laid out nearly £60,000 in acquiring the patents, in erecting plant for the purpose of working and in working the process. The amount was arrived at as follows: Acquisition of patents, £30,000; capital subscribed and used for plant, &c., £20,000; borrowed money used for plant, &c., £9,000. I do not disregard these matters as factors affecting the merit of the petitioner and its remuneration, but I decline to accept them as the test or standard by which the adequacy of the petitioner's remuneration is to be determined. The Company has, so far as I can judge, been excellently managed, and its shares on the 1919 balance-sheet appear to me worth considerably more than 11s. 6d. per share, which it is said was the price paid in the market in 1919 for a small parcel. The accounts show that due provision has been made for depreciation in plant and all proper trading charges.

(1) 25 C.L.R., 116. (2) 25 C.L.R., at p. 123.

Dividends have been distributed up to the end of 1918 amounting to £5,370. But it is alleged in the petition that, taking the period 1913-1918, the net profits of the Company are represented by an amount of £4,166 1s. I am unable to agree with this allegation. It is arrived at as follows:—Accumulated losses to end of 1913, £11,493 11s. 5d.; total profit earned 1913-1918, £15,659 12s. 5d.: profit, £4,166 1s. But the balance, £15,659 12s. 5d., is obtained after providing out of profits the following sums: Written off book value of patents, £17,818 12s. 6d.; reserve fund (to redeem debentures), £4,000; general reserve, £4,000; reserve for taxation, £3,111. The whole of these sums must, in my opinion, be treated as part of the receipts of the petitioner from the use of the patent. The reserve for taxation is more doubtful than the other items, but I am not satisfied on the evidence that this sum is not a reserve to meet taxation that may be imposed, rather than a reserve to pay taxation already imposed and actually due by the petitioner. To these sums must also be added an ascertained profit to 31st December 1919 of £4,613. Further, the patent has nearly nine months to run after 31st December 1919, and I feel satisfied that the Company will do at least as well in 1920 as in 1919. On this basis the Company for the nine months would make a further profit of about £3,460. And the Company is then left in command of an established and successful business. In the accounts of the petitioner, the goodwill of this business is not valued as an asset. The figures I have quoted give the Company a return of £41,168 from the use of the patent.

Further, I am satisfied that the return from the use of the patent might have been considerably larger but for the delay on the part of the petitioner's predecessors in title in launching the invention on the market.

On the whole of the facts I am not satisfied that the petitioner has not been adequately remunerated by its patent. On the contrary, having regard to the character of the invention and the benefit conferred upon the public, I find that the petitioner has been adequately remunerated.

It is desirable before concluding to refer to an allegation in par. 70 of the petition that the petitioner has been prevented from earning an adequate remuneration in operating the process of the patent

H. C. OF A. 1920.

IN RE TRUFOOD OF AUSTRALIA LTD.

Starke J.

by reasons of conditions arising out of the War. This allegation is not proved to my satisfaction. Two of the exhibits show the sales from 1910 to 1919, but there are some small discrepancies in the figures. I cite from one of those exhibits: Sales—1912, £20,590; 1913, £29,153; 1914, £19,961; 1915, £29,689; 1916, £37,809; 1917, £52,397; 1918, £55,199; 1919, £70,765. The fall in the sales for 1914 was due to a drought which brought about a scarcity of milk. This fall should not be used against the petitioner. But the sales show that the volume of business was increasing rapidly during the War. I think the business might have expanded still more if the Company had been able to obtain further plant and machinery, which was certainly rendered impossible owing to conditions arising out of the War. But this again shows how seriously the original delay in launching the invention on the market may have prejudiced the return from the patent.

The Court directed notice of this petition to be served on the Attorney-General and the Commissioner of Patents in order that the interests of the public might be represented. The grant of a further monopoly in a foodstuff might conceivably prejudice those interests. Neither the Attorney-General nor the Commissioner of Patents appeared. I venture to suggest for the consideration of the law officers whether it would not be desirable in future cases to investigate petitions for the extension of patents and to give the Court the benefit of their assistance. The law officers of the Crown or the Comptroller-General of Patents invariably appear in this class of case in Great Britain and afford very great assistance to the Courts, and the practice might, as it seems to me, be adopted with advantage in Australia.

The petition is dismissed.

From that decision the applicant appealed to the Full Court.

Latham. In ascertaining the profits of a patentee for the purpose of determining under sec. 84 of the *Patents Act* whether he has been adequately remunerated, the value of the goodwill of the business which is working the patent ought not to be taken into account (*Agnew on Patents*, p. 206; *In re Galloway's Patent* (1); see also

(1) 7 Jur., 453, at p. 456.

Turquand v. *Marshall* (1)). Goodwill cannot be either a profit or a remuneration. In ascertaining the profits a fair allowance should be made for the use of the capital employed in the business (*In re Davies's Patent* (2)).

[ISAACS J. referred to *In re Saxby's Patent* (3).]

Claude Robertson, for the Attorney-General for the Commonwealth and the Commissioner of Patents, was not called on.

KNOX C.J. In this case my brother *Starke* decided that on the whole of the facts he was not satisfied that the petitioner had not been adequately remunerated by its patent. He found, on the contrary, that, having regard to the character of the invention and the benefit conferred on the public, the petitioner has been adequately remunerated. He also drew attention to the fact that the accounts in evidence before him included no item in respect of the goodwill of the business. I do not think it is necessary for us to consider in the present case whether as a matter of strict law the value of the goodwill ought or ought not to be taken into the account of the profits made by the patentee as such. It is quite clear that where there is a business which is a going concern, the value of which, outside its tangible assets, may be compendiously described as goodwill, that element enters into a consideration of the "circumstances of the case." But in the present case I do not find it necessary to attach any money value to the alleged goodwill of this Company. The admitted figures—the figures produced by the Company itself—show that the capital embarked in the concern—the money actually subscribed—excluding, as we must exclude, the amount paid for the patent itself, was £20,000. They show that the total net profits over a period of ten years, covering the whole existence of the Company, were somewhere between £25,000 and £30,000. The result is that in ten years out of the fourteen years during which the Company might have utilized the patent if it chose, in which case the profits would probably have been considerably larger, the Company has, by the use of the patented process and by

(1) L.R. 4 Ch., 376, at p. 384. (2) 11 R.P.C., 27.
(3) L.R. 3 P.C., 292.

H. C. OF A. 1920.

IN RE TRUFOOD OF AUSTRALIA LTD.

KNOX C.J.

clever business management in connection with the manufacture of goods by the patented process and the sale of such goods, received from £25,000 to £30,000 by way of return on an original capital expenditure of £20,000. That amounts to an average of from 12½ to 15 per centum per annum over the whole period of ten years. In view of those figures I think that it is impossible to say that the petitioner has not been adequately remunerated. On those grounds I am of opinion that the appeal fails and should be dismissed.

ISAACS J. I quite agree on the bare figures apart altogether from the question of goodwill. We are not expressing any opinion one way or the other with regard to the value of goodwill, but I do say, for the benefit of proposing applicants for extension, that it is a matter which they ought to take into serious consideration in any particular case.

KNOX C.J. I agree with what my brother *Isaacs* has last said.

RICH J. I agree.

Appeal dismissed with costs.

Solicitors for the appellant, *Arthur Robinson & Co.*

Solicitor for the Crown, *Gordon H. Castle,* Crown Solicitor for the Commonwealth.

B. L.