

JURISDICTION : SUPREME COURT OF WESTERN AUSTRALIA
IN CIVIL

CITATION : MILANKOV DESIGNS & PROJECT
MANAGEMENT PTY LTD -v- DI LATTE
[2018] WASC 14

CORAM : MARTINO J

HEARD : 24, 25, 26, 27 & 30 OCTOBER 2017

DELIVERED : 22 JANUARY 2018

FILE NO/S : CIV 1443 of 2013

BETWEEN : MILANKOV DESIGNS & PROJECT
MANAGEMENT PTY LTD
Plaintiff

AND

NICOLA DOMENICO DI LATTE
CARLA DI LATTE
First Defendants

LAWRENCE J SCANLAN & ASSOCIATES PTY
LTD
Second Defendant

Catchwords:

Copyright - Infringement - Innocent infringement - Damages

Legislation:

Copyright Act 1968 (Cth)

Result:

Plaintiff entitled to award of damages against both defendants

Damages assessed at \$157,825

Plaintiff entitled to be reimbursed by the first defendants amount paid by plaintiff to contractor

Category: B

Representation:

Counsel:

Plaintiff	:	Mr W C J Zappia
First Defendants	:	Mr G R Ritter QC
Second Defendant	:	Mr R J Price

Solicitors:

Plaintiff	:	Lavan
First Defendants	:	HopgoodGanim
Second Defendant	:	Barry Nilsson Lawyers

Case(s) referred to in judgment(s):

Beck v Montana Constructions Pty Ltd (1964) NSW 229

Blair v Osborne & Tomkins [1971] 2 QB 78

Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd [2006] HCA 55;
(2006) 229 CLR 577

Electricity Generation Corporation v Woodside Energy Ltd (2014) 251 CLR 640

Facton Ltd v Rifai Fashions Pty Ltd (2012) 199 FCR 569

Gothard v Davey [2010] 80 ACSR 56

Hart Security Australia Pty Ltd v Boucousis (2016) 339 ALR 659

Henley Arch Pty Ltd v Lucky Homes Pty Ltd (2016) 120 IPR 317

IceTV Pty Ltd v Nine Network Australia Pty Ltd (2009) 239 CLR 458

In the matter of C&T Grinter Transport Services Pty Ltd (In Liq) & Grinter
Transport Pty Ltd (In Liq) (Controller Appointed) [2004] FCA 1148

Milwell Pty Ltd v Olympic Amusements Pty Ltd (1999) 85 FCR 436

Sellars v Adelaide Petroleum NL (1994) 179 CLR 332

TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3) (2007) 158
FCR 444

1 **MARTINO J:** The plaintiff carries on business providing design, drafting and project management services. Most of the plaintiff's work is the designing and managing the construction of expensive houses. Mr George Milankov is a building designer and a project manager. He supplies services to the plaintiff. Whether he is employed by the plaintiff is an issue in this action.

2 The first defendants are husband and wife. Mrs Di Latte is the registered proprietor of land in Dalkeith with which this case is concerned. She purchased the land in 2010. Mr Di Latte is the Chief Executive Officer of the Diploma Group Limited which carries on business in construction and property development.

3 The second defendant is an architectural practice specialising in residential and civic development. Mr Lawrence Scanlan, who is a registered architect, is a director of the second defendant.

4 In July 2010 the plaintiff and the first defendants entered into a contract for the plaintiff to design a house for the first defendants. The contract was constituted by a letter from the plaintiff to the first defendants which Mr Di Latte signed and returned. The plaintiff prepared plans which were submitted to the City of Nedlands for approval in April 2011. The contract was terminated in November 2011.

5 The plaintiff claims that the first defendants and the second defendant have infringed the plaintiff's copyright in the plans that the plaintiff prepared. In its statement of claim the plaintiff made claim against Mr and Mrs Di Latte for damages for breach of contract. That claim was not pursued at the trial. The defendants do not admit that the plaintiff owned copyright in the plans and say that if it did then the first defendants had a licence to use the plans. The second defendant also pleads that any infringement of copyright was innocent.

6 The first defendants made a counterclaim against the plaintiff for breach of contract. That counterclaim was not pursued at trial.

7 The plaintiff also claims against the first defendants for \$3,762 claimed as a cost incurred in engaging Millipede Group Pty Ltd to provide images of the proposed residence.

The plaintiff

8 The workforce at the plaintiff consists of Mr Milankov, Ms Anthea D'Opera, Mr Milankov's administrative assistant, Mr Gary Baker, a

draftsman and Mr Kevin Raykos who is also a draftsman. Mr Baker and Mr Raykos are paid an hourly rate for the work that they do.

The first defendants' engagement of the plaintiff

9 In July 2010 Mr Di Latte approached Mr Milankov about designing a house that the first defendants proposed to build on the land in Dalkeith. The two men met on 21 July 2010 at the plaintiff's office.

10 On 23 July 2010 Mr Milankov sent a letter to the first defendants setting out the terms on which the plaintiff would provide services to them. On 28 July 2010 Mr Di Latte signed a copy of the letter and returned it to the plaintiff. The letter constitutes the contract between the plaintiff and the first defendants. It provided that the scope of the services to be provided by the plaintiff to the first defendant was:

- i) Design and Sketch Plan preparation of the proposed residence.
- ii) Preparation of Working Drawing and Specification Documentation for submission to Council.
- iii) All Council and relevant Authority liaison and negotiation.
- iv) Six (6) sets of Working Drawing prints.'

11 The letter provided that services to be provided by the plaintiff did not include services required to be provided by other consultant service providers.

12 The letter specified that the plaintiff's fee 'for the Architectural Design and Documentation' of the project was 5% plus GST of the construction value of the project and that:

The construction value will be calculated using the total area of the proposed residence and assuming a building rate of \$3,000 (plus GST) per square metre.

13 The letter provided for a payment schedule by reference to two stages, stage one being design and sketch plan documentation and stage two being working drawing and specification documentation.

14 In stage one, three progress claims were to be invoiced, the first progress claim for \$5,000 plus GST was to be invoiced once the preliminary design/sketch drawings had been completed. The second progress claim for \$10,000 plus GST was to be invoiced during the working schedule of stage one which included when the drawings were

transferred into CAD format. The third progress claim for \$15,000 plus GST was to be invoiced at the completion of stage one and when the drawings were ready for development application approval.

- 15 The balance of the plaintiff's fee was to be invoiced in stage two by three progress claims. The calculation of progress claims one and two in this stage were to be based on the assumed construction value of the project. The third and final progress claim was to be invoiced once the documentation had been completed and the final area of the proposed residence had been determined.

The preparation of plans by the plaintiff

- 16 Mr Milankov met with the second defendants on 2 August 2010 and discussed the proposed residence. Following that meeting Mr Milankov commenced preparing drawings for the residence.

- 17 The preparation of plans for the first defendants' home followed the usual practice in the plaintiff's office. Mr Milankov prepared rough drawings of room layouts and sizes. From those rough drawings Mr Milankov prepared drawings to a scale of 1:100. Mr Milankov met with Mr Di Latte from time to time while he was engaged in the preparation of these drawings and he discussed them with Mr Di Latte.

- 18 By late September 2010 Mr Milankov had prepared scale drawings of the house. He gave those drawings to Mr Raykos and instructed Mr Raykos to convert them into plans in electronic format, known as CAD format.

- 19 In the course of converting the drawings to CAD format Mr Raykos had several discussions with Mr Milankov about the plans. Mr Milankov continued to work on the plans and to meet with Mr Di Latte.

- 20 On 28 September 2010 the plaintiff sent an invoice to the first defendants for \$5,500. It was the first progress claim for stage one of the project. The first defendants paid the amount due on that invoice.

- 21 In the middle of November 2010 Mr Baker took over from Mr Raykos. By that time Mr Raykos had prepared a basic set of plans that were copies of the drawings that Mr Milankov had prepared in hand. Mr Baker carried out further work in preparing CAD format plans. While the plans were being finalised Mr Milankov discussed the project with the first defendants and with Mr Di Tulio, an interior designer. Mr Milankov continued to make changes to the plans, by making alterations by hand to

print outs of the CAD format plans. He gave those alterations to Mr Baker who incorporated the amendments into the CAD format plans.

22 On 23 November 2010 the plaintiff sent an invoice to the first defendants for \$11,000 for the second progress claim of stage one. The first defendants paid the amount due on that invoice.

23 Mr Milankov continued to work on the plans and to meet with Mr Di Latte. Sometimes Mr Di Tulio attended these meetings. There were some tensions in the relationship between Mr Milankov and Mr Di Latte. Mr Di Latte felt that Mr Milankov was not incorporating into the design of the house things that Mr Di Latte had requested.

24 By 21 April 2011 the plans were ready to be submitted to the City of Nedlands for approval. On that day Mr Milankov met with the first defendants and Mr Di Tulio. Mrs Di Latte signed an application for planning approval. On 28 April 2011 Mr Milankov and Mr Di Latte went to the City of Nedlands' office and submitted the application for planning approval with the plans that had been prepared.

25 As the house was to be built on land adjoining the Swan River and the proposed development included a boat ramp it was also necessary to provide the plans to the Department of Planning, which the plaintiff did on 31 May 2011.

26 On 10 May 2011 the plaintiff sent an invoice to the first defendants for \$16,500 for the third progress claim for stage one of the project. The first defendants paid the amount due on that invoice.

27 Various amendments to the plans were required to be made in the process of obtaining development approval. Mr Milankov met with the first defendants and discussed the amendments which were required. He made the amendments in hand and gave them to Mr Baker. Mr Baker incorporated the amendments into the CAD plans. An amended set of plans was prepared by the plaintiff on 6 September 2011.

28 On 11 October 2011 the City of Nedlands Council Committee met and recommended that the Council approve the development application, on conditions. Following that decision Mr Milankov prepared further amendments to the plans and submitted those amended plans to the City on 25 October 2011.

29 On 22 November 2011 the Council of the City of Nedlands met and approved the development application, subject to conditions. By letter

dated 7 December 2011 the City of Nedlands informed the plaintiff of the Council's decision.

The account from Millipede Pty Ltd

30 Millipede Pty Ltd prepares three dimensional representations of buildings from plans. Mr Milankov has used the company to provide that service for many years.

31 In March 2011 Mr Milankov contacted Millipede and asked for a quotation to prepare three dimensional images from the plans that the plaintiff had prepared for the first defendants. On 30 March 2011 Millipede provided a quotation of \$2,970.

32 On 1 April 2011 Mr Milankov forwarded that quotation to Mr Di Latte. On 6 May 2011 Mr Di Latte sent an email to Mr Milankov instructing him to proceed to engage Millipede.

33 The plaintiff engaged Millipede and three dimensional representations of the first defendants' proposed residence were prepared by it.

34 On 31 October 2011 Millipede rendered an account to the plaintiff for \$2,970. The plaintiff forwarded that account to the first defendants on the same day. The first defendants did not pay the account. The plaintiff paid the account on 28 February 2012.

35 The first defendants did not plead a substantive defence to the plaintiff's claim for the payment to Millipede and did not seek to amend their defence to do so.¹

The termination of the contract between the plaintiff and the first defendants

36 While the plaintiff was working on the design of the first defendants' house Mr Milankov and Mr Di Latte had many meetings. The meetings were usually held at the plaintiff's premises. During November 2011 Mr Di Latte was busy with other matters and he cancelled a number of meetings that had been arranged.

37 A meeting was to be held on 14 November 2011 at the plaintiff's office. In the afternoon of 14 November 2011 Mr Di Latte's secretary telephoned Mr Milankov and told him that Mr Di Latte was not able to

¹ ts 414.

meet with him on that day. Mr Milankov expressed frustration at the cancellation of the meeting. After that telephone conversation Mr Di Latte's secretary told Mr Di Latte that Mr Milankov was upset that the meeting had been cancelled. Mr Di Latte told his secretary to telephone Mr Milankov to ask him to attend a meeting at Mr Di Latte's office. When Mr Di Latte's secretary telephoned Mr Milankov again Mr Milankov told her that he regarded Mr Di Latte's conduct as rude and that he would not attend the meeting at Mr Di Latte's office that afternoon. Mr Di Latte's secretary told Mr Di Latte that Mr Milankov had refused to meet Mr Di Latte at Mr Di Latte's office, that he had been quite abrupt and that he had hung up on her.

38 Mr Di Latte telephoned Mr Milankov and asked him if he refused to meet at Mr Di Latte's office. The conversation was heated. In the conversation Mr Milankov called Mr Di Latte an idiot and preceded that word with a well-known offensive swear word. Mr Milankov's evidence was that Mr Di Latte had sworn at him, which Mr Di Latte denies. I am unable to determine whether or not Mr Di Latte swore at Mr Milankov and I do not think it matters whether or not he did so. The telephone call ended abruptly.

39 There was no communication between the two men for some days after that telephone conversation. On 23 November 2011 Mr Di Latte sent by email a letter to Mr Milankov. He said that stage one of the agreement between the plaintiff and the first defendants had been reached and the plaintiff had been fully paid for that component of the works. He informed Mr Milankov that the first defendants would not be proceeding with the plaintiff beyond stage one and the first defendants terminated the agreement by the letter. Mr Di Latte informed Mr Milankov that it was extremely disappointing to Mr Di Latte that the first defendants had been forced down that path, but that it was clear that they were not able to work together in a constructive manner. Mr Di Latte said:

Your outburst on Monday 14 November 2011 by telephone is in no way acceptable to me as your client and cannot be tolerated. Your silence since that time has been deafening.

40 Mr Di Latte said that the construction of the residence would take upwards of three years which, given the breakdown in the relationship, was simply too long a period to remain engaged. He asked for the CAD plans to be copied to a CD and that he would arrange a courier to collect the CD from the plaintiff's office at 3.00 pm on the next day.

41 Mr Milankov replied by email on the same day. He informed Mr Di Latte that his position had been noted, that he would provide a response by the end of the week and that CAD plans would not be available to be collected on the following day.

42 Mr Milankov wrote to the first defendants on 25 November 2011, in reply to Mr Di Latte's letter of 23 November 2011. He said that he agreed that the telephone conversation of 14 November 2011 contained tension, but that he disagreed with Mr Di Latte's version of the events that led to the decision to terminate the contract. He said that in the telephone conversation of 14 November 2011 Mr Di Latte had been aggressive, had directed a verbal tirade to Mr Milankov and had hung up on him. Mr Milankov said that he interpreted Mr Di Latte's action as indicating that Mr Di Latte did not want to communicate with the plaintiff or Mr Milankov for the time being.

43 Mr Milankov confirmed that the first defendants had paid the invoices that the plaintiff had rendered for the three claims for stage one of the project. He requested that the first defendants pay the invoice from Millipede which the plaintiff had forwarded to the first defendants.

44 Mr Milankov said that it was essential that the first defendants noted that all designs, drawings and related documentation regarding the proposed residence were the intellectual property of the plaintiff and covered by copyright law. As such, Mr Milankov said, all drawings relating to the project were the copyright property of the plaintiff and were not to be copied or reproduced without the plaintiff's written permission. Mr Milankov said that the development approval that had been granted by the City of Nedlands could not proceed to stage two and the residence could not be constructed as designed and documented by the plaintiff.

45 Later that day solicitors for the first defendants wrote to Mr Milankov rejecting his claim that the plaintiff retained copyright in the plans for the first defendants' home.

The first defendants' engagement of the second defendant

46 Mr Di Latte first discussed the proposed house on the Dalkeith land with Mr Scanlan in July 2010. He continued to meet with Mr Scanlan from time to time and Mr Scanlan prepared some design sketches. On 9 February 2011 Mr Di Latte sent an email to Mr Scanlan telling him to stop work on the project. The second defendant did not charge the first defendants for the work it had done.

47 In November 2011 Mr Di Latte telephoned Mr Scanlan and requested that Mr Scanlan meet with him about preparing documentation for the house that was to be built in Dalkeith. They met on 24 November 2011. Mr Di Latte told Mr Scanlan that he had development approval but that he did not want to proceed with Mr Milankov, who had prepared the plans for which development approval had been granted. He said that he wanted Mr Scanlan to do the documentation for the project.

48 Mr Scanlan told Mr Di Latte that he would need to satisfy himself as to copyright issues and he asked if Mr Milankov had been paid in full for the work he had done on the house. Mr Di Latte told Mr Scanlan that he had paid Mr Milankov everything that he was owed. Mr Scanlan asked Mr Di Latte if there was anything in his contract with Mr Milankov which required that he use Mr Milankov for the remainder of the job. Mr Di Latte told Mr Scanlan that there was not. Mr Scanlan said that if Mr Milankov had been paid in full for the work he had done then Mr Milankov had given Mr Di Latte the right to use the drawings on the site as Mr Di Latte saw fit. Mr Scanlan recommended that Mr Di Latte get legal advice on his position and said that he would seek some advice from the Royal Australian Institute of Architects or another architect to confirm Mr Scanlan's view.

49 After the meeting Mr Scanlan telephoned the Royal Australian Institute of Architects and obtained the name of an architect that the Institute recommended who could give advice on the situation. Mr Scanlan cannot recall who that architect was. He telephoned the architect who told Mr Scanlan that where a client had paid an architect or designer in full for the services and drawings that the architect or designer had provided for a project there would be no issues with the client and another architect using the drawings for the development of the site.

50 Mr Scanlan also telephoned Mr Rob Hanlin, an architect he knew and had worked for in the past. Mr Hanlin gave the same advice as the first architect that Mr Scanlan had called.

51 On 29 November 2011 Mr Scanlan met with Mr Di Latte. He told Mr Di Latte that he had received advice from architects that confirmed the view that Mr Scanlan had expressed at their meeting on 24 November 2011. He asked Mr Di Latte if he had obtained legal advice on the situation. Mr Di Latte said that he had checked with his lawyers and there were no problems.

52 Mr Scanlan and Mr Di Latte negotiated a price and agreed that the first defendants would pay the second defendant \$55,000 plus GST for the preparation of the drawings required to obtain a building permit on the development approval that had been granted, construction detailing and the co-ordination of structural and hydraulics engineering work. On 7 December 2011 Mr Di Latte sent a short email to Mr Scanlan confirming the price for the second defendant's work. Later that day Mr Scanlan sent Mr Di Latte an email confirming the work that they had agreed that the second defendant would do for that price.

The work done by the second defendant

53 Mr Scanlan needed a copy of the plans approved by the City of Nedlands to start work. He wanted to obtain a copy of the plans endorsed with the City's development approval. Mrs Di Latte signed a letter to the City requesting that the City provide to the second defendant copies of any documentation relating to the development approval that the second defendant requested. The second defendant forwarded that letter to the City of Nedlands. Mr Scanlan telephoned the City of Nedlands and requested a copy of the plans endorsed with the City's development approval. The City refused to provide a copy to him.

54 On 14 December 2011 Mr Di Latte sent an email to the City's planning manager requesting that it provide him with a copy of the plans endorsed with the development approval. The City's planning manager replied on the same day saying that the City's current advice was that the City was unable to provide a copy of the plans to Mr Di Latte, but that it would obtain further advice. The planning manager also said that, as Mr Scanlan had been informed, the plans were attached to the Council agenda, were available on the City's website and there had been no changes to the plans that were on the website, other than that the plans on the website had not been stamped and marked up in accordance with the Council's resolution.

55 Mr Scanlan received copies of Mr Di Latte's email and the City's reply. He decided that as the unstamped plans submitted to the City accurately represented the design approved by the City he did not need a copy of the plans endorsed with that approval. Mr Scanlan obtained an unstamped copy of the plans, probably from Mr Di Latte. On 21 December 2011 the City's planning manager sent another email to Mr Di Latte with a copy to Mr Scanlan saying that she had received further advice and that the City could provide to Mr Di Latte a copy of the

plans endorsed with the development approval. A copy was not obtained as the second defendant worked with an unstamped copy.

56 The second defendant used the plans for which development approval had been obtained to prepare drawings to be used for the construction of the house and a building specification for the house. These documents were prepared by the second defendant in consultation with Mr Di Latte and with consultants engaged by the first defendants. In preparing the construction drawings a number of changes were made to the plans that had been prepared by the plaintiff. These changes, which were required to satisfy engineering requirements and site requirements, included re-design of the interior of the house to align a number of the walls which were not aligned in the plans prepared by the plaintiff, changes to sewerage and stormwater pipes and drains, creation of retaining walls and re-designing required as a result of holes in the limestone beneath the property which were discovered by a geotechnical consultant.

57 The drawings and building specification prepared by the second defendant were submitted to the City of Nedlands with an application for a building licence. The second defendant responded to information requests made by the City. The City issued a building licence in 2012.

58 There were seven plans in each of the sets of plans prepared by the plaintiff for submission to the City of Nedlands on the application for development approval. The plans prepared by the second defendant and submitted to the City with the application for the building licence also consisted of seven plans. They were substantially similar to the plans prepared by the plaintiff on 6 September 2011.

59 In 2012, before the building licence was issued, Mr Di Latte and Mr Scanlan agreed that the first defendant would pay the second defendant a fee of \$87,500 plus GST for the preparation by the second defendant of a set of construction drawings to include all detailing necessary for the builder to complete construction of the house. Mr Scanlan is unable to locate any record of this second agreement, other than the accounts that he rendered. Those accounts showed that the accounts were rendered for the preparation of a comprehensive set of 'builder's drawings' including construction detailing and co-ordination of structural and hydraulics engineering based on the approved set of 'DA drawings'.

60 After the building licence was issued the second defendant continued to work on the drawings to be used for the construction of the house. This work continued after the construction of the house had commenced. The house to be built was a large, complex, luxury house which required the documentation of a great deal of detail for its construction to be completed.

61 The second defendant prepared over 60 construction drawings. Most of those drawings had between three to six revisions, with some having up to 14 revisions. These revisions were required as a result of directions of the first defendants, issues encountered with the site, input from other consultants and detailing required for the house to be built to the luxury standard required by the first defendants.

62 The construction of the second defendant's house was completed in mid-2016.

The position of the defendants on the plaintiff's claim that it held copyright in the plans submitted to the City of Nedlands for development approval

63 In par 6 of their defence, in answer to the plaintiff's plea that the agreement between the plaintiff and the first defendants contained an implied term that the first defendants had an implied licence to use the plans prepared by the plaintiff as part of the first defendants' application for development approval, the first defendants admit that the plaintiff had copyright in plans prepared by it. However in par 8 of their defence the first defendants do not admit the plaintiff's plea in par 8 of its statement of claim that the plaintiff held the copyright in the plans it prepared. Counsel for the first defendants informed me that the first defendants did not dispute that the plaintiff held copyright in the plans.² The second defendant did not admit that the plaintiff held copyright in the plans.

Whether the plaintiff owned copyright in the plans the plaintiff submitted for development approval

64 Copyright subsists in an original unpublished artistic work made by an Australian citizen or resident – s 32 *Copyright Act 1968* (Cth). Although Mr Milankov did not give evidence as to his citizenship or residency he did give evidence that he was born in Perth and of his childhood, education and work experience in Western Australia. I infer that he is an Australian citizen or an Australian resident.

² ts 544.

65 The terms artistic work and drawing are defined in s 10 of the *Copyright Act*. An artistic work includes a drawing, whether the work is of artistic quality or not. A drawing includes a diagram, map, chart or plan.

66 The requirement that the artistic work be original means that the work originated from the author and was not merely copied from another work. It requires some independent intellectual effort, but does not require novelty or inventiveness - *IceTV Pty Ltd v Nine Network Australia Pty Ltd* (2009) 239 CLR 458 [33].

67 Where an artistic work is made by the author in pursuance of the terms of their employment under a contract of service the employer is the owner of the copyright – s 35(6) *Copyright Act*.

68 I have summarised earlier in these reasons the evidence as to the work done by each of Mr Milankov, Mr Raykos and Mr Baker in the creation of the plans for which development approval was granted by the City of Nedlands. Plans were prepared in hand by Mr Milankov. They were converted into electronic CAD format. Mr Milankov made changes to print outs of the plans in CAD format and those amendments were incorporated into the CAD format plans. This work of converting the work done in hand by Mr Milankov to CAD format was done initially by Mr Raykos and then by Mr Baker.

69 I am satisfied, having regard to that evidence, the plans and the principles of law to which I have referred that the plans submitted to the City of Nedlands for development approval constituted original artistic works, that copyright subsisted in them on their production and that Mr Milankov was the author of them.

70 The second defendant did not dispute that copyright subsisted in the plans. The second defendant put in issue whether the plaintiff held the copyright in those plans. The second defendant did not admit that the plaintiff employed Mr Milankov.

Whether the plaintiff employed Mr Milankov

71 Mr Milankov gave evidence, in his witness statement, that he has been an employee of the plaintiff since it was incorporated on 23 July 2002 and that the owner of the one ordinary share in the plaintiff is his mother Vasiliki Milankov. He identified a copy of his contract of employment dated 1 July 2003 which was included in the documents tendered in evidence.

72 That contract of employment was an agreement between Mrs Milankov as employer and Mr Milankov as employee. It provided that as part of the agreement the duties to be performed by Mr Milankov were architectural sketch and design skills to the plaintiff and assisting with the day to day management of property matters for Milankov Property Group Pty Ltd.

73 A redacted copy of the PAYG payment summary provided to the Australian Taxation Office in respect of the payments to Mr Milankov in the year ended 30 June 2012 was in evidence. It stated that the payer of the payments to Mr Milankov was the plaintiff.

74 The financial records of the plaintiff for the years ended 30 June 2011, 30 June 2012 and 30 June 2013 showed that the plaintiff paid wages and superannuation contributions for Mr Milankov and it paid workers compensation insurance premiums in those years.

75 In cross-examination Mr Milankov said that he was still employed under the contract of employment with his mother,³ that he was employed by his mother in 2010,⁴ that he was not employed by his mother, but had a power of attorney from her, that he was a bit confused about it all, that the administrative arrangements of the employment were handled by the plaintiff in the sense that tax was remitted to the Australian Taxation Office through the plaintiff rather than through his mother and that he was not able to produce any notice of termination of his contract of employment with his mother.⁵

76 Many of the cases concerned with identifying an employer of a person from two or more possibilities have turned on their own facts and so the case law in the area is of limited assistance. However it is possible to discern certain general principles that the courts have applied in the identification process. The courts have adopted the position that in undertaking the exercise, they are entitled to take a wide view of the relationship, beyond the terms of the contractual documentation, to examine how the parties conducted themselves in practice and whether, where there is contractual documentation, the reality of the situation accords with the terms of that documentation or whether it points to another entity being the employer: *Gothard v Davey* [2010] 80 ACSR 56 [52].

³ ts 150.

⁴ ts 158.

⁵ ts 152.

77 The principles to be applied in the identification of the employer of an employee where there are two or more possible employers, are reasonably well settled: *In the matter of C&T Grinter Transport Services Pty Ltd (In Liq) & Grinter Transport Pty Ltd (In Liq) (Controller Appointed)* [2004] FCA 1148 [20] (Finn J), who noted the following principles:

1. A contract of service cannot be transferred by one employer to another or novated as between them without the employee's consent: *Nokes v Doncaster Amalgamated Collieries Ltd* [1940] AC 1014; *Re Coogi Nominees Pty Ltd (Administrators appointed)*; *McCluskey v Karagiosis* (2002) 120 IR 147.
2. The totality of the circumstances surrounding the relationships of the various parties including conduct subsequent to the creation of an alleged employment relationship is relevant to the assessment: *Romero v Auty* (2001) 19 AGLC 206 [10] and [42] - [44].
3. Documentation created by one or more of the parties describing or evidencing an apparent employment relationship will be relevant to, but not necessarily determinative of, the true character of that relationship: *Pitcher v Langford* (1991) 23 NSWLR 142; *Marrs Fabrics Pty Ltd & Nathan Wholesale Fabrics Pty Ltd v Whipps* (1991) 33 AILR 167. In determining the identity of a disputed employer, the Court is entitled to consider 'the reality of purported contractual arrangements': *Dalgety Farmers Ltd t/a Grazcos v Bruce*, NSWCA, 3 August 1995. The documentation may have been brought into existence for other purposes, for example, tax minimisation or the reduction of insurance premiums, without reflecting the reality of the parties' relationship: *Dalgety Farmers Ltd t/a Grazcos v Bruce*; *Pitcher v Langford*, at 149; *Sharrment Pty Ltd v Official Trustee in Bankruptcy* (1988) 18 FCR 449 at 454.
4. Conversations and conduct at the time of the alleged engagement of the employee is of considerable significance: *Romero*, at [9]. The beliefs of the employees as to the identity of their employer is admissible and is entitled to weight: *Pitcher v Langford*.
5. In cases of the engagement of new employees to work in a business in which a number of separate corporate entities participate otherwise than as partners:

'... it was open to those controlling the business to select which company should be the employer provided that the selection was consistent with the financial and administrative organisation of the business and was not otherwise a sham.'

Textile Footwear and Clothing Union of Australia v Bellechic Pty Ltd, FCA, Ryan J, 19 November 1998.

78 In my view the reality of the situation is that Mr Milankov was employed by the plaintiff, rather than his mother, notwithstanding the fact that the contract of employment was expressed to be between Mr Milankov and his mother. I have no doubt that Mr Milankov honestly believed that he was employed by the plaintiff until the parties to the contract of employment were pointed out to him in cross-examination. He was clearly surprised when that occurred. As Mr Milankov appears to have had at all times far greater involvement in the operation of the plaintiff's affairs than his mother I regard his subjective views as being significant.

79 The financial records of the plaintiff were consistent with it being Mr Milankov's employer.

80 I conclude that the plaintiff employed Mr Milankov when he prepared the plans submitted to the City of Nedlands. As the plaintiff employed the author of the plans it held the copyright in those plans.

Pleading of an implied licence to use the plans prepared by the plaintiff

81 The pleading of a licence to use the plans prepared by the plaintiff is first raised by the plaintiff, in the statement of claim. The plaintiff pleads, in par 6 of the statement of claim, that the agreement between the plaintiff and the first defendants contained an implied term, implied by reason of business efficacy alternatively by operation of law, that the first defendants would have an implied licence to use the development plans for submission to the City of Nedlands as part of the first defendants' application for development approval.

82 The first defendants plead in par 6 of their defence that they admit that there was an implied licence for the first defendants to use the plans prepared by the plaintiff under stage one of the agreement between the plaintiff and the first defendants for the purpose of constructing the first defendants' residence. The first defendants plead, in par 6A, that the plaintiff was engaged by the first defendants for the purpose of preparing the plans to be prepared under stage one and, if the first defendant decided to proceed with the plaintiff under stage two, for the documents to be prepared under stage two of that agreement. The first defendants plead that this purpose entitled the first defendants to reproduce the plans prepared by the plaintiff under stage one for the purpose of constructing

the first defendants' residence, including obtaining approvals from the City of Nedlands.

83 The second defendant pleads in par 6 of its defence that the agreement between the plaintiff and the first defendants contained an implied term, implied by operation of law or to give business efficacy to the agreement, constituting the grant of an implied irrevocable licence permitting the first defendants, their assigns, employees, agents and contractors to use whatever plans and other documents were prepared under that agreement for all purposes for which those plans and documents would normally be used, being all purposes in connection with the planning and construction of the first defendants' residence.

84 In its reply to the first defendants' defence the plaintiff pleads in par 1A that the implied term pleaded in par 6 of the first defendants' defence is contrary to the express terms of the contract, which required the first defendants to retain the plaintiff to prepare plans for the purpose of obtaining a building licence, not necessary to give business efficacy to the agreement, not reasonable and equitable and not obvious.

The licence granted by the plaintiff to the first defendants

85 There is no doubt that the contract between the plaintiff and the first defendants constituted by the plaintiff's letter of 23 July 2010 and the second defendant's acceptance of it by email on 28 July 2010 was terminated in November 2011.

86 The second defendant submitted that the first defendants were justified in terminating the contract by reason of s 67(5) of the *Architects Act 2004* (WA). The plaintiff's letter of 23 July 2010 provided that the plaintiff's fee was 'for the Architectural Design and Documentation'. The plaintiff is not a licenced corporation under the *Architects Act*, Mr Milankov, Mr Raykos and Mr Baker are not registered architects and the plaintiff does not employ any registered architects. Section 67(5) of the *Architects Act* provides:

- (5) A person who enters into a contract with a service provider in respect of whose services a restricted word is used or in respect of whose work it is stated or implied that the work will be done or controlled and supervised by an architect may, by notice in writing given to the service provider at any time before the completion of the contract, withdraw from the contract without being liable for damages for repudiation of the contract and despite any provision to the contrary in the contract, if -

- (a) there is no reasonable likelihood that the work, if not yet begun, will be controlled and supervised by a registered person; or
- (b) the work, if already begun, was not, or is not being, controlled and supervised by a registered person.

87 'Architectural' is a restricted word within the meaning of that term in the *Architects Act*. The work that had been done and was to be done under the contract between the plaintiff and the first defendants had not been performed, and was not to be performed, by a registered architect. The first defendants did not rely upon s 67(5) of the *Architects Act* in Mr Di Latte's letter of 23 November 2011. The second defendant submitted that the reference to architectural design and documentation in the plaintiff's letter of 23 July 2010 meant that by reason of s 67(5) of the *Architects Act* the first defendants were able to withdraw from the contract without being liable for damages for repudiation even though they had relied upon the provision in terminating the contract. This issue does not arise for determination by reason of the way that the parties have conducted the trial. If s 67(5) of the *Architects Act* applied it would relieve the first defendants of liability for damages for repudiation. It would not relieve the first defendants from liability for damages for infringement of copyright. The plaintiff is not pursuing a claim for damages for repudiation.

88 As the plaintiff did not pursue its claim for breach of contract the first defendants did not pursue in evidence issues of whether or not the first defendants were justified in terminating the contract. Although that issue arises on the pleadings it is not an issue for me to determine, by reason of the way that the parties have conducted the trial.

89 The plaintiff is pursuing a claim for damages for infringement of copyright. I have found that the plaintiff does have copyright in the plans prepared for the first defendants.

90 The issue for me to determine is the extent of the licence given by the plaintiff to the first defendants to use the plans the plaintiff prepared.

91 In *Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd* [2006] HCA 55; (2006) 229 CLR 577 Kirby and Crennan JJ said at [59] that a non-exclusive licence by an architect to a property owner to use architectural plans and drawings may be oral, implied by conduct, implied by law to a particular class of contracts, or may be implied as necessary to give business efficacy to a specific agreement between the parties. A term

which might ordinarily be implied by law to a particular class of contracts may be excluded by express provision or if it is inconsistent with the terms of the contract. In some instances more than one of the bases for implication may apply.

92 Contracts between architects and clients are contracts of the class to which the licence is implied: *Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd* [59]. In my view the fact that the plaintiff is not an architect is not a relevant distinction. The class extends to contracts for the preparation of plans that are to be used for the construction of a building.

93 If the owner employs a builder or another architect the implied licence extends so as to enable them to make copies of the plans and to use them for that very building on that site, but for no other purpose: *Blair v Osborne & Tomkins* [1971] 2 QB 78, 75; *Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd* [72].

94 In *Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd* the High Court referred with approval to *Beck v Montana Constructions Pty Ltd* (1964) NSW 229. In *Beck v Montana Constructions Pty Ltd* Jacobs J said at 235 that the engagement for reward of a person to produce material of a nature which is capable of being the subject of copyright implies permission or consent in the person making the engagement to use the material in the manner and for the purpose in which and for which it was contemplated by the parties that it would be used at the time of the engagement.

95 Jacobs J, at 235, applied that principle to the case before him to conclude that the payment for sketch plans includes a permission or consent to use those sketch plans for the purpose for which they were brought into existence, namely for the purpose of building a building in substantial accordance with them and for the purpose of preparing any necessary drawings as part of the task of building the building. He went on to make clear that the implication of permission or consent to use the plans in that way would not follow if the architect could be regarded as reserving a right to himself in the contract to continue with the subsequent stages, but that was not the case before him.

96 The plaintiff has referred to the statement by Jacobs J in *Beck v Montana Constructions Pty Ltd* that the implication of permission or consent to use the plans would not follow if the architect could be regarded as reserving a right to himself in the contract to continue with the

subsequent stages as applying in this case to exclude the implication of the licence. The plaintiff submits that the contract between the plaintiff and the first defendants reserved to the plaintiff the right to continue with subsequent stages of the contract and so a licence to use the plans to build a house is not to be implied.

97 The defendants submit that the statement by Jacobs J was obiter and that I should not apply it.

98 In my view the statement is to be understood in light of the principle subsequently referred to by Kirby and Crennan JJ in *Concrete Pty Ltd v Parramatta Design & Developments Pty Ltd* that a term implied by law to a particular class of contracts may be excluded by express provision or if it is inconsistent with the terms of the contract.

99 The defendants do not contend that the licence is to be implied by conduct. If the licence was excluded by express provisions of the contract or because it was inconsistent with the terms of the contract then the licence implied into contracts of the class of the contract between the plaintiff and the first defendants would be excluded. In that event the licence could also not be implied into the contract to give business efficacy to the contract because it would be excluded by the contract.

100 The plans prepared by the plaintiff were prepared under stage one of the agreement. They were prepared for development approval. It is necessary to consider the contract between the plaintiff and the first defendants to determine if the implication of a term that the plaintiff gave the first defendants permission or consent to use those plans for the purpose of building a house was excluded.

101 The contract between the plaintiff and the first defendants had no express provision dealing with the licence. It did not expressly exclude the licence. The licence implied by law to the class of contract could only have been excluded if it was inconsistent with its terms.

102 The contract provided for the plaintiff to prepare plans ready for development application approval in stage one and then, in stage two to prepare working drawing and specification documentation. The plans prepared in stage one were to be used for development approval. Then the plaintiff was to prepare working drawing and specification documentation. In my view it is inconsistent with the provisions of the contract for the plaintiff to have given the first defendants a licence to use the plans prepared for stage one for the building of a house. The implied licence given by the plaintiff to the defendants was to use the plans

prepared in stage one for the submission to the City of Nedlands for development approval. It was not an implied licence to use the plans to build a house, because that is inconsistent with the terms of the contract which provided that the plaintiff was to prepare working drawing and specification documentation.

103 I conclude that the implication of a licence for the defendant to use the plans prepared by the plaintiff in stage one of the contract for the purpose of building the house on the land is inconsistent with the terms of the contract between the plaintiff and the first defendants.

The infringement of the plaintiff's copyright

104 The second defendant admits that it used the drawings prepared by the plaintiff for the application for the building licence. It was not in dispute at trial that drawings prepared by the second defendant and the house built using them substantially reproduced the drawings prepared by the defendant. They clearly did. The defendants have infringed the plaintiff's copyright.

The second defendant's defence of innocent infringement

105 Section 115(3) of the *Copyright Act* provides a defence to a claim for damages infringement of copyright if the defendant was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement of copyright. To obtain the protection of s 115(3) a defendant must establish (i) an active subjective lack of awareness that the act constituting the infringement was an infringement of the copyright and (ii) that, objectively considered, he or she had no reasonable grounds for suspecting that the act constituted infringement: *Milwell Pty Ltd v Olympic Amusements Pty Ltd* (1999) 85 FCR 436.

106 In pars 29 and 30 of its defence the second defendant pleads that if its use of the plaintiff's plans constituted an infringement of the plaintiff's copyright then at the time of the infringement it was not aware, and had no reasonable grounds for suspecting, that the act constituting an infringement was an infringement because Mr Di Latte had informed Mr Scanlan that:

- i) the first defendants had engaged the plaintiff to prepare the initial design for the house and an application for development approval;
- ii) the first defendants had obtained development approval, but did not want to use the plaintiff to prepare further documentation;

- iii) the first defendants had paid the plaintiff for all the work that the plaintiff had completed for them;
- iv) the agreement between the plaintiff and the first defendant did not state or imply that the first defendants must use the plaintiff to perform any work beyond the work that the plaintiff had completed; and
- v) the first defendant had received legal advice confirming that the agreement between the plaintiff and the first defendants did not state or imply that the first defendants must use the plaintiff to perform any work beyond the work that the plaintiff had completed.

107 I accept the evidence that these things occurred. In addition, to the issues raised in pars 29 and 30 of the defence, the second defendant, in submissions by its counsel, relied upon the enquiries made by Mr Scanlan of an architect whose name he cannot recall who he spoke to after that name was given to him by the Royal Australian Institute of Architects and of Mr Rob Hanlin. I accept Mr Scanlan's evidence of those conversations.

108 However in my view the responses received by Mr Scanlan to his enquiries of Mr Di Latte, the unnamed architect whose name Mr Scanlan has forgotten and Mr Hanlin do not provide an objective basis for Mr Scanlan having no reasonable grounds for suspecting that its actions in using the plans prepared by the plaintiff constituted an infringement of the plaintiff's copyright.

109 Mr Scanlan was aware that the plans prepared by the plaintiff were prepared under an agreement with the first defendants. Whether or not the plaintiff had given the first defendants a licence to use those plans to proceed to obtain a building permit and to construct the house turned on the terms of that agreement. Mr Scanlan asked Mr Di Latte about the terms of the agreement between the plaintiff and the first defendants, but he did not ask to see a copy of that agreement.

110 Mr Scanlan's evidence was that he did not do so because he thought that Mr Di Latte would not give him a copy because it would have compromised his bargaining position with the second defendant. That did not provide a basis not to ask to see a copy of the agreement. Mr Scanlan did not know whether a request to see a copy of the contract would have been refused until he asked for a copy of it, which he did not do. There would have been no detriment to the second defendant if the request had been made.

111 Further, the second defendant could have contacted the plaintiff and asked if it contended that the use of the plans it prepared in the manner proposed constituted an infringement of copyright. If he received an affirmative answer then he could have asked the plaintiff for a copy of its agreement with the first defendants.

112 In the absence of a copy of the agreement between the plaintiff and the first defendants or advice from the plaintiff that the use of the plans prepared by it did not infringe its copyright the assurances which Mr Scanlan received could not provide an objective basis for the second defendant to have no reasonable grounds for suspecting that its actions in using the plans prepared by the plaintiff constituted an infringement of the plaintiff's copyright.

Assessment of damages

113 The relief that a court may grant in an action for infringement of copyright includes either damages or an account of profits – s 115(2) *Copyright Act*. The plaintiff has elected to claim damages and claims the profit that it claims it would have made if its copyright had not been infringed. The defendants contend that any infringement of copyright has not caused any loss because the contract between the plaintiff and the first defendants had been terminated before there was any infringement of copyright.

114 While it has been said that the measure of damages for infringement of copyright is the depreciation caused by the infringement to the value of the copyright as a chose in action, this is not the exclusive measure of damages. A better statement is that a plaintiff entitled to damages for infringement of copyright is entitled to such damages as would as far as possible put the plaintiff in the position it would have been in if there had been no infringement: *TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444 [204].

115 Loss of profits is one method of assessing damages. The assessment of damages for loss of profit may involve a degree of speculation, but that is no bar to recovery: *TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3)* [207]. When damages for loss of profits are to be calculated based on the loss of an opportunity there are two questions to be considered. The first is whether there has been a lost opportunity to make profits. The second question is what is the value of that lost opportunity: *Henley Arch Pty Ltd v Lucky Homes Pty Ltd* (2016) 120 IPR 317 [213]. The first question is to be decided on the balance of probabilities. Once it is established on the balance of probabilities that a

valuable opportunity has been lost its value is to be ascertained by reference to the degree of probabilities or possibilities: *Sellars v Adelaide Petroleum NL* (1994) 179 CLR 332, 355; *Hart Security Australia Pty Ltd v Boucousis* (2016) 339 ALR 659 [131] - [134].

116 Prior to the first defendants deciding to proceed with the design of the house prepared by the plaintiff Mr Di Latte had been dealing with the second defendant and two other architects. This continued after 28 July 2010, when he signed a copy of the plaintiff's letter of 23 July 2010.⁶ Mr Di Latte wanted to make sure that when the first defendants decided on a design they had the design that they wanted.⁷ Mr Di Latte decided to proceed with the plaintiff's design. In February 2011 he told Mr Scanlan to stop work on the project.

117 When the application for development approval was submitted to the City of Nedlands in April 2011 the first defendants had decided that they wished to proceed with the design of the house prepared by the plaintiff. They would not have submitted the application if that were not so.

118 When he terminated the first defendant's engagement of the plaintiff in November 2011 Mr Di Latte considered that he could do so and continue with construction of the house using the plaintiff's drawings. At that time the relationship between Mr Di Latte and Mr Milankov was strained and Mr Milankov had spoken in an unprofessional abusive manner to Mr Di Latte in the telephone conversation of 14 November 2011.

119 I am satisfied on the balance of probabilities that if the first defendants had no alternative but to continue to work with the plaintiff if the house were to be built using the plaintiff's drawings then they would have done so. The tensions in the relationship between Mr Di Latte and Mr Milankov would have been managed and the project would have been completed.

120 Further, the first defendants having committed to the construction of the house, it is my conclusion that there is no significant prospect that the first defendants would not have continued with the engagement of the plaintiff until completion of the project if the first defendants had no alternative but to do so if the house was to be built according to the plaintiff's drawings. For that reason it is my assessment that in making the assessment of damages there should be no reduction in the profits the

⁶ ts 402.

⁷ ts 403.

plaintiff would have earned for the chance that the first defendants would not have used the plaintiff.

121 Counsel for the defendants submitted that because Mr Raykos and Mr Baker were fully occupied on other jobs after the plaintiff's engagement by the first defendants was terminated the plaintiff has suffered no loss because there was no evidence that the replacement work was less profitable than the plaintiff's contract with the first defendants. I do not accept that submission. Any profit that the plaintiff would have made if the plaintiff had completed its work under the contract with the first defendants would have been in addition to any profit that the plaintiff would have earned under other contracts. There is no evidence from which I can conclude that the other contracts would not have been entered into and performed by the plaintiff if it had completed the contract with the first defendants.

The amount the plaintiff would have received if it had completed the contract

122 The plaintiff had completed and been paid for the first stage of the contract between the plaintiff and the first defendants. It had not commenced the second stage. The total fee payable to the plaintiff for the completion of both stages of the contract was 5% plus GST of the construction value of the project, with the construction value being calculated on the total area of the residence assuming a building rate of \$3,000 plus GST per square metre.

123 There was disagreement between the parties as to the method of ascertaining the total area of the residence. There was a dispute as to whether the alfresco areas, balconies and garages were to be included in the calculation.

124 The evidence of Mr Scanlan was that when he calculates the area of a residence he does not include balconies or garages. His evidence was that the size of a house will be defined by most architects as not including balconies, alfresco areas, terraces or, possibly, garages.⁸ Mr Scanlan also gave evidence that the balconies, alfresco areas and garages were integral parts of the residence and that in a complicated, luxury house such as the first defendants' all of these areas take time.⁹

125 The meaning of the terms of a commercial contract is to be determined by what a reasonable businessperson would have understood

⁸ ts 463.

⁹ ts 462.

those terms to mean. That will require consideration of the language used by the parties, the surrounding circumstances known to them and the commercial purpose or objects to be secured by the contract: *Electricity Generation Corporation v Woodside Energy Ltd* (2014) 251 CLR 640 [35]. In my view as the balconies, alfresco areas and garages were parts of the residence which required work to be done on them in the design of the first defendants' house a reasonable business person in the position of the plaintiff and the first defendants would have understood those areas to be included in the total area of the proposed residence when that term is used in the contract between them.

126 The plaintiff calculated the total area of the residence as being 1,592 sqm. This area was taken from the plaintiff's third sketch plan for the residence, at pages 101A to 101H of the Electronic Trial Bundle.¹⁰ Mr Scanlan gave evidence the total area, including the balconies, alfresco areas and garages as being 1,545.5 sqm. He arrived at this figure from drawings prepared by the second defendant, at pages 174 to 177 of the Electronic Trial Bundle, using the software that was used by the second defendant in preparing those drawings.¹¹

127 The contract between the plaintiff and the first defendants provided that the final progress payment claim to be made to the plaintiff was to be made 'once the documentation has been completed and the final area of the proposed residence has been determined'. The plans used by the plaintiff to calculate the total area were well before the documentation was complete. In my assessment the plans used by Mr Scanlan are a preferable basis to calculate the final area of the residence because they more closely represent the final area of the residence. I accept Mr Scanlan's evidence as to those measurements and I find that the total area of the residence was 1,545.5 sqm.

128 For the purpose of calculating the plaintiff's fee the total construction value of the house, using the area of 1,545.5 and the building rate specified in the contract between the plaintiff and the first defendants of \$3,000, is \$4,636,500. The total of the plaintiff's fee, calculated at 5% of that sum, is \$231,825.

¹⁰ ts 216.

¹¹ Exhibit 15 [13] - [14].

The contract draftsmen expenses the plaintiff would have incurred if it had completed the contract

129 The parties disputed the work that would have been required to be done by the plaintiff to complete its contract with the first defendants. One area of disagreement was based upon the number of drawings prepared by the second defendant. The second defendant prepared over 60 working drawings, with a number of revisions of them. (In his witness statement, exhibit 14 at [125] Mr Scanlan said that the plaintiff prepared 61 construction drawings and referred to the drawings commencing at page 172 of the Electronic Trial Bundle. From page 172 to page 236 of the Electronic Trial Bundle there are 65 drawings). The second defendant spent a total of 2,099 hours working on the property. This does not include Mr Scanlan's time, which he estimated to be between 156 to 330 hours.¹²

130 The defendants contend that the plaintiff would have been required to prepare a similar number of drawings to a similar standard to those prepared by the second defendant and that the hours spent working on the project by the second defendant demonstrates that the plaintiff's estimate of the time that it would have spent is unrealistic. The plaintiff contended that it was not required to prepare drawings to the standard prepared by the second defendant. In particular, the plaintiff contends, it was not required to design interior spaces.

131 In my view the work done by the second defendant is not a useful guide in determining the work that the plaintiff would have been required to do to complete its contract with the first defendants. The work done by the second defendant involved some duplication of work done by the plaintiff, because the second defendant did not have the CAD format plans that the plaintiff had prepared. Further, the work agreed to be done by the plaintiff and by the second defendant was different. The scope of work to be done by the plaintiff was:

- i) Design and Sketch Plan preparation of the proposed residence.
- ii) Preparation of Working Drawing and Specification Documentation for submission to Council.
- iii) All Council and relevant Authority liaison and negotiation.
- iv) Six (6) sets of Working Drawing prints.

¹² Exhibit 14 [139] - [144].

132 Its fee was 'for the Architectural Design and Documentation'. In stage two of the project the plaintiff was to prepare working drawing and specifications. The contract expressly excluded from the services to be provided by the plaintiff 'Other Consultant services for example, Surveyors, Structural Engineers, Model Maker, Hydraulic Services, Electrical Consultants, Interior Designers and any other Consultant that may be required to complete the project.' The plaintiff's contract with the first defendants did not require it to prepare the drawings that the second defendant agreed to prepare.

133 The second defendant had two agreements with the first defendants. Under the first agreement it agreed to prepare the drawings required to obtain a building permit on the development approval that had been granted, construction detailing and the co-ordination of structural and hydraulics engineering work. Under the second agreement it agreed to prepare a comprehensive set of builder's drawings including construction detailing and co-ordination of structural and hydraulics engineering. The work that the second defendant agreed to do for the plaintiff was different from, and greater than, the work that the plaintiff agreed to do.

134 Mr Baker gave evidence that he estimated that he would have spent 500 hours to prepare working drawings for the first defendants' house. This estimate was based on hours spent on other projects, in particular slightly less than the midpoint between the hours spent on two houses, one of which was near the first defendants' house and the other of which was in South Perth.¹³ However the assessment by Mr Baker of hours spent on other projects contained many errors, some of which were acknowledged by him in cross-examination, others which he was not prepared to acknowledge but which clearly did exist.

135 Mr Baker's evidence was that it took him 582 hours to prepare working drawings for the house near the first defendants' house.¹⁴ His evidence was that this figure came from his time sheets.¹⁵ The time sheets to which Mr Baker referred showed that the time recorded on those time sheets was 584 hours. Further, the time sheets were not complete. They commenced on 10 May 2007 and ended on 24 September 2007. Mr Baker acknowledged in cross examination that he worked on the house after September 2007 and that construction drawings were issued in

¹³ Exhibit 6 [133].

¹⁴ Exhibit 6 [54].

¹⁵ Trial Volume pages 809 - 828.

March 2008. His evidence was that he could not be precise but that he probably spent another week working on the house.¹⁶

136 The first drawings for that house that were in evidence were dated February 2007. Mr Milankov acknowledged in cross examination that work would have been done on the house before May 2007 and so the time sheets were not complete.¹⁷ In re-examination he said that the initials on the February 2007 plans were Mr Baker's and that Mr Baker was responsible for putting that date on the plans.¹⁸ Mr Baker was not prepared to acknowledge that he had done any work on the project in February 2007, other than to save a title block for the plans. This evidence was based on the absence of time sheets in February 2007.¹⁹ However the plaintiff's time sheets were not complete, as Mr Baker had acknowledged the previous day when he acknowledged that there were no time sheets for the time spent between September 2007 and March 2008.

137 In relation to the house in South Perth Mr Baker's evidence was that it took him 486 hours to prepare working drawings for the residence, that the Trial Bundle at pages 1263 to 1292 contained his invoices to the plaintiff in the period from 26 November 2010 to 1 November 2011, that he had to amend the plans to lower the house by reason of a complaint by a neighbour and that he cannot recall precisely how long that work took but it was approximately 50 hours.²⁰ On this basis Mr Baker deducted 50 hours from 486 hours and used 436 hours as the basis for the calculation of the midpoint between this house and the house near the first defendants' house.²¹ However Mr Baker's invoices in the Trial Bundle that he referred to were not for the period of 26 November 2010 to 1 November 2011. The earliest invoice was 11 August 2009²² and the last invoice was dated 8 February 2011 for work done in January 2011.²³ Mr Baker acknowledged in cross-examination that he prepared revised plans dated February 2011, but he was not sure if some time sheets were missing.²⁴ Clearly some time sheets were missing because Mr Baker's evidence as to the time spent on changing drawings following a complaint from a neighbour was not based on time sheets.

¹⁶ ts 272.

¹⁷ ts 182.

¹⁸ ts 249.

¹⁹ ts 319.

²⁰ Exhibit 6 [94] - [98].

²¹ Exhibit 6 [133].

²² Trial Bundle page 1264.

²³ Trial Bundle pages 1325 and 1326.

²⁴ ts 302 - 303.

138 Mr Baker's evidence as to the time spent by him on those projects was unsatisfactory and I am not prepared to rely upon his evidence in calculating damages. That is because I am satisfied that the records of the plaintiff as to hours spent on other projects were not complete, so the conclusions he drew were based on incorrect information.

139 Mr Jeffrey Herbert is an experienced chartered accountant. He was called to give evidence by the second defendant and gave evidence on the issue of the profit the plaintiff would have earned if it had been permitted to perform the entirety of the engagement contemplated by its contract with the first defendants.

140 Mr Herbert prepared reports dated 20 November 2014 and 14 May 2015 which were tendered in evidence as part of his evidence-in-chief. Mr Herbert was not qualified to give evidence as to the size of the house designed by the plaintiff of the number of contract draftsmen hours required to prepare plans to complete the engagement and he did not do so.

141 In his reports Mr Herbert calculated the loss to the plaintiff on the basis of various assumptions as to the size of the house and the number of contract draftsmen hours required. The rate charged by Mr Baker at the time was \$40 an hour and that was the rate that Mr Herbert used in his calculations.

142 On 25 October 2017, the day before Mr Herbert gave evidence, the solicitors for the second defendant wrote to Mr Herbert requesting him to assume that the cost to the plaintiff of completing the first stage of the project, for the preparation of development approval plans, was \$14,646. Mr Herbert's oral evidence was that on that assumption the gross profit that he calculated on the assumptions that he had been provided with would have increased, in each case, by \$14,646, because if part of the work had already been done before the contract was stopped then some part of the cost to the plaintiff of working on the project had already been incurred and that part had effectively been double counted by Mr Herbert in his calculations.²⁵

143 Mr Herbert also produced a report on his conference with an expert who had been engaged by the plaintiff, but who was not called as a witness by the plaintiff. In that report Mr Herbert agreed that the loss of profits should be calculated in accordance with the following formula:

²⁵ ts 380.

<i>Lost income:</i>	Ref	Value (\$)
Area of house - square metres	A	?
Fees per square metre	B	$\$3,000 \times 5\%$
Total fees: A x B	C	A x B
<i>Less expenses:</i>		
Contractor fees:		
<i>number of hours</i>	D	?
<i>rate per hour (\$)</i>	E	$\$40$
Contractor fees: D x E:	F	D x E
Lost net income: C - F	G	C - F
Less payment received	H	<u>\$30,000</u>
Net loss (before Income Tax)		G-H

144 Mr Herbert's evidence was that if the number of contractor hours used in the formula was the number of hours to complete the project then no allowance needed to be made for the payment of \$14,646 that the plaintiff had made to contract draftsmen for the first stage of the project. If however the number of contractor hours used in the formula was the total number of hours then there would be double counting and there would need to be an adjustment to the calculation.²⁶

145 It is necessary for me to ascertain the number of contract draftsmen hours required for the plaintiff to complete the contract if it had not been terminated. The work done by the second defendant is not an accurate guide, because the work required to be done by the second defendant under its contract with the first defendants was different to the work required to be done by plaintiff under its contract. The plaintiff's records of work done on other projects do not provide an accurate guide, because I am satisfied that the records in evidence are not complete. The best guide on the evidence is to be obtained from evidence as to the plaintiff's financial records.

146 Mr Herbert was provided with copies of the plaintiff's financial records for the financial years 2011 to 2014. Those financial records showed that the plaintiff's income from design and drafting in the 2011 financial year was \$461,567, in the 2012 financial year it was \$359,666, in the 2013 financial year it was \$514,204 and in the 2014 financial year it was \$752,088. For each of those years its payments to contract draftsmen were \$137,519, \$143,472, \$143,125 and \$146,974 and its total operating

²⁶ ts 380, 383.

expenses, including variable costs, were \$424,462, \$422,209, \$408,722 and \$489,572. The plaintiff's net profit for the 2011 financial year was \$58,313, for the 2012 financial year its net loss was \$3,396, for the 2013 financial year its net profit was \$119,714 and for the 2014 financial year its net profit was \$203,075.

147 For the 2011 financial year the payments to contract draftsmen was 29.79% of income from design and drafting, for the 2013 financial year the payments to contract draftsmen was 27.83% of income from design and drafting and for the 2014 financial year the payments to contract draftsmen was 19.54% of income from design and drafting. For the 2012 financial year the payments to contract draftsmen was 39.89% of the income from design and drafting. I have excluded that year from my calculations because it was the year in which work was to be done under the contract between the plaintiff and the first defendants and the year in which the contract was terminated. For that reason in my view it is not an accurate guide as to the usual relationship between draftsman expenses and income in the plaintiff's business.

148 The average of the payments to contract draftsmen as a percentage of income from design and drafting for the 2011, 2013 and 2014 financial years was 25.72%. In my view that is the most accurate guide to the total cost to the plaintiff for payments to contract draftsmen if the plaintiff had performed the whole of its contract with the first defendants.

149 I therefore calculate the total income that the plaintiff would have received if it had performed the whole contract and the total fees it would have paid to contract draftsmen as follows:

Total area of residence:	1,545.5 sqm
Fee per square metre:	\$3,000 x 5%
Total Fee:	\$231,825
Fees to draftsmen calculated at 25.72% of the total fee:	\$59,625

150 Using the rate of \$40 an hour a total of fees paid to contract draftsmen of \$59,625 represents 1,491 hours. From this number I deduct the number of hours spent on stage one by contract draftsmen, which was 391 hours, 142 hours of which were performed by Mr Raykos²⁷ and 249 hours of which were performed by Mr Baker.²⁸ I therefore calculate

²⁷ Exhibit 4, Vol 1, pp 517, 518 and 519.

²⁸ Exhibit 4, Vol 1, pp 522, 526, 530, 534, 538, 542, 546, 550 and 554.

that it would have taken 1,100 hours of contract draftsmen work to complete the contract.

151 I therefore calculate the plaintiff's loss as follows:

Lost income:

Area of house - square metres	1,545.5 sqm
Fees per square metre	\$3,000 x 5%
Total fees	\$231,825

Less expenses:

Contractor fees:

Number of hours to complete the project	\$1,100
Rate per hour	\$40
Contractor fees	\$44,000

Lost net income: \$187,825

Less payment received \$30,000

Net loss \$157,825

152 Counsel for the second defendant submitted that I should deduct from the figure arrived at using this method the profit that the plaintiff earned on stage one, that is \$30,000 less the sum of \$14,646 paid to Mr Rankos and Mr Baker. I do not accept that submission.

153 The plaintiff's loss is the profit that it would have earned on stage two. That profit is not to be reduced by the profit that it earned on stage one.

Additional damages

154 The plaintiff claims against each defendant additional damages pursuant to s 115(4) of the *Copyright Act*. Additional damages can be awarded if the court is satisfied that it is proper to do so having regard to the flagrancy of the infringement, the need to deter similar infringements of copyright, the conduct of the defendant after the act constituting the infringement or, if relevant, after the defendant was informed that the defendant had allegedly infringed the plaintiff's copyright, whether the infringement involved the conversion of a work or other subject-matter from hard copy of analog form into a digital or other electronic

machine-readable form, any benefit shown to have accrued to the defendant by reason of the infringement and all other relevant matters.

155 Damages under s 115(4) are damages other than compensatory damages. They are of a punitive kind. The sub section provides a non-exclusive guide to the matters that are relevant in assessing additional damages. Additional damages will be awarded when the conduct of the defendant is such that an award of punitive damages should be made to mark the court's recognition of the opprobrium attached to the defendant's conduct: *Facton Ltd v Rifai Fashions Pty Ltd* (2012) 199 FCR 569 [31] - [37].

156 The drawings prepared by the plaintiff were all endorsed with a notice of the plaintiff's claim to copyright in them. There is no doubt that each of the defendants was aware that plaintiff claimed copyright in its plans.

157 The plaintiff points to the following matters as warranting an award of additional damages against the first defendants:

1. the first defendants were aware from Mr Milankov's letter of 25 November 2011 that the plaintiff claimed that the first defendants had no right to use the plans prepared by the plaintiff;
2. the first defendants' solicitors' letter in response to Mr Milankov's letter of 25 November 2011 was wrong in law, it referred to s 32(6) of the *Copyright Act* as requiring express provision as to copyright in the contract between the plaintiff and the first defendant for the plaintiff to retain copyright. There is no s 32(6) of the *Copyright Act* and no provision of the Act required express provision in the contract between the plaintiff and the first defendants;
3. Mr Di Latte was a senior executive in a major construction group and ought to have known that engaging a person to prepare plans under a contract of services does not, in the absence of an express term to that effect, result in the commissioner of the plans owning copyright in them.
4. the first defendants continued with the construction of the house after the commencement of this action;
5. the need for general and personal deterrence;

6. hard copies of the drawings prepared by the plaintiff were converted into electronic format; and
7. the first defendants paid the second defendant less than they would have been required to pay the plaintiff if they had continued to use the plaintiff to complete the project.

158 The plaintiff points to the following matters as warranting an award of additional damages against the second defendant:

1. Mr Scanlan, the principal of the second defendant, is an experienced architect, yet he made only perfunctory enquiries as to whether the first defendants were authorised to use the plans prepared by the plaintiff;
2. the second defendant continued to use the plans prepared by the plaintiff after the commencement of this action;
3. the need for general and personal deterrence;
4. hard copies of the drawings prepared by the plaintiff were converted into electronic format; and
5. the second defendant will receive credit for the design of a house which was the plaintiff's design.

159 The reason for the termination of the first defendants' engagement of the plaintiff was the strain in the relationship between Mr Di Latte and Mr Milankov. It was not to have the work to be done by the plaintiff done by the second defendant at a lower cost.

160 The first defendants and the second defendant believed that they were entitled to use the drawings prepared by the plaintiff to complete the construction of the house. They did not use the plans knowing that they were not entitled to do so. Copies were made into electronic format for the purpose of construction of the house, not to make the plans further available.

161 In my view the conduct of the defendants does not warrant an award of additional damages under s 115(4) of the *Copyright Act* and I do not award additional damages.

Conclusion

162 Both defendants have infringed the plaintiff's copyright. The defence of innocent infringement is not available to the second defendant. I assess the plaintiff's loss resulting from the infringement at \$157,825. I make no award of additional damages. The plaintiff is entitled to be reimbursed by the first defendants for the sum of \$2,970 paid to Millipede Pty Ltd.