FEDERAL COURT OF AUSTRALIA

Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3) [2014] FCA 4

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| Citation: | Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3) [2014] FCA 4 |
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| Parties: | **NEOBEV PTY LTD (ACN 165 795 746) v BACCHUS DISTILLERY PTY LTD (ADMINISTRATORS APPOINTED) (ACN 065 961 711); MAX SCOTT CONSULTING PTY LTD (ACN 098 170 480) and MAX SCOTT** |
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| File number: | SAD 291 of 2013 |
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| Judge: | **BESANKNO J** |
|  |  |
| Date of judgment: | 16 January 2014 |
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| Catchwords: | **PATENTS** – applicant claims entitlement to rights in intellectual property by reason of two Deeds of Assignment – where intellectual property includes patents and know-how, copyright and confidential information associated with patents – identity of inventor or inventors of invention with respect to a process for producing a clean wine spirit used as a base in the production of cream liqueur products – alleged collaboration between two persons over a period of some months – identity of owner or owners of the patent – alleged conversation giving rise to joint ownership or an express trust for ownership in equal shares – terms governing use of confidential information and copyright material – construction of provision of royalty agreement dealing with obligation to continue to honour agreement when intellectual property sold to a third party and whether provision is vague and uncertain.**Held**: The third cross respondent is the sole inventor of the invention. The second cross respondent and the respondent are joint beneficial owners of the patent. The respondent’s right or licence to use the confidential information is not capable of assignment. The provision in the royalty agreement is void because it is vague and uncertain.  |
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| Legislation: | *Patents Act 1990* (Cth) ss 14, 16, 79B, 187, 188, 192*Patent Regulations 1991* (Cth), reg 19.1 |
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| Cases cited: | *Aktiebolaget Hassle v Alphapharm Pty Ltd* (2002) 212 CLR 411*Associated Alloys Pty Limited v ACN 001 452 106 Pty Ltd (in Liquidation) and Another* (2000) 202 CLR 588*Browne v Dunn* (1893) 6 R 67 *Byrnes v Kendle* (2011) 243 CLR 253*Casey’s Patent; Stuart v Casey* [1892] 1 Ch R 104*Comptroller of Stamps (Victoria) v Howard Smith* (1936) 54 CLR 614*Con-Stan Industries of Australia Pty Ltd v Norwich Winterthur Insurance (Australia) Limited* (1986) 160 CLR 226*Costa v G R & I E Daking Pty Ltd* (1994) 29 IPR 241*Flower & Hart (a firm) v White Industries (Qld) Pty Ltd* [1999] FCA 773; 87 FCR 134*Grundt v The Great Boulder Pty Gold Mines Limited* (1937) 59 CLR 641*Hewett v Court* (1982-1983) 149 CLR 639*JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2005) 67 IPR 68*Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* (2007) 81 ALJR 1070; 235 ALR 202*Mid-City Skin Cancer and Laser Centre Pty Ltd v Zahedi-Anarak* (2006) 67 NSWLR 569*Mueller Brass Co v Reading Industries Inc* 352 F Supp 1357; 176 USPQ 361 (1972); 487 F2d 1395 (1973)*Pacific Brands Sport and Leisure Pty Ltd and Others v Underworks Pty Ltd* [2006] FCAFC 40; (2006) 149 FCR 395*Painaway Australia Pty Ltd v JAKL Group Pty Ltd and Others* [2011] NSWSC 205; (2011) 249 FLR 1*Polwood Pty Ltd and Others v Foxworth Pty Ltd and Others* [2008] FCAFC 9; 165 FCR 527*Preston Erection Pty Ltd and Another v Speedy Gantry Hire Pty Ltd* (1999) 43 IPR 74*Smith Kline & French Laboratories (Aust) Limited and Others v Secretary, Department of Community Services and Health* (1990) 22 FCR 73*Stack v Davies Shephard Pty Ltd* (2001) 108 FCR 422*The Council of the Upper Hunter County District v Australian Chilling and Freezing Co Limited* (1967-1968) 118 CLR 429*Thompson v Palmer* (1933) 49 CLR 507*Tolhurst v Associated Portland Cement Manufacturers 1900; Associated Portland Cement Manufacturers 1900 v Tolhurst* [1902] 2 KB 660*Toyota Motor v Ken Morgan Motors* [1994] 2 VR 106*TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444*University of British Columbia and Another v Conor* *Medsystems Inc* (2006) 155 FCR 391; 70 IPR 248Heydon J D, *Cross on Evidence* (9th ed, LexisNexis, Butterworths Australia, 2013) |
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| Dates of hearing: | 16-19 December 2013 |
|  |  |
| Place: | Adelaide |
|  |  |
| Division: | GENERAL DIVISION |
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| Category: | Catchwords |
|  |  |
| Number of paragraphs: | 143 |
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| Counsel for the Applicant/Cross Respondents: | Mr D Williams SC with Mr L Merrick |
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| Solicitor for the Applicant/Cross Respondents: | Piper Alderman |
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| Counsel for the Respondent/Cross Claimant: | Mr T Cox SC with Mr S Rebikoff |
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| Solicitor for the Respondent/Cross Claimant: | DMAW Lawyers as agent for Mills Oakley Lawyers |

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| IN THE FEDERAL COURT OF AUSTRALIA |  |
| SOUTH AUSTRALIA DISTRICT REGISTRY |  |
| GENERAL DIVISION | SAD 291 of 2013 |

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| BETWEEN: | NEOBEV PTY LTD (ACN 165 795 746)Applicant/First Cross RespondentMAX SCOTT CONSULTING PTY LTD (ACN 098 170 480)Second Cross RespondentMAX SCOTTThird Cross Respondent |
| AND: | BACCHUS DISTILLERY PTY LTD (ADMINISTRATORS APPOINTED) (ACN 065 961 711)Respondent/Cross Claimant |

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| JUDGE: | BESANKO J |
| DATE OF ORDER: | 16 January 2014 |
| WHERE MADE: | ADELAIDE |

THE COURT ORDERS THAT:

1. The proceeding be adjourned to a date to be fixed for consideration of the final orders to be made in light of these reasons.

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

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**REASONS FOR JUDGMENT**

# INTRODUCTION

1. This proceeding involves a claim by Neobev Pty Ltd (“Neobev”) against Bacchus Distillery Pty Ltd (Administrators Appointed) (“Bacchus”) and a cross claim by Bacchus against Neobev, Max Scott Consulting Pty Ltd (“MSC”) and Max Scott.
2. Neobev was incorporated in Victoria on 13 September 2013 and its directors are Mr Max Scott and Mr Mark Pitcher. Its shareholders are Scott Group Pty Ltd and Equity Holdings (Australia) Pty Ltd. It claims to be entitled to certain rights by reason of two Deeds of Assignment; the first Deed is dated 13 September 2013 and it is between Neobev of the one part and MSC and Max Scott of the other part, and the second Deed is dated 26 September 2013 and it is between the same parties. MSC is a company owned and controlled by Mr Scott. He is a director of the company and holds all of the shares in the company. He is and was at all material times an employee of the company and provided his consultancy services through the company. In the case of each assignment, the assignors are MSC and Max Scott and the assignee is Neobev.
3. In the case of the first Deed of Assignment, the property assigned is the assignors’ right, title and interest in and to the “Intellectual Property Rights” in the “Intellectual Property” as defined. “Intellectual Property” is defined as the intellectual property developed for Bacchus and/or licensed to Bacchus and as including the intellectual property described in Schedule 1 to the Deed. The intellectual property described in that Schedule includes an Australian patent, an Australian provisional pending patent, two New Zealand patents, know-how, copyright and confidential information associated with the patents; know-how, copyright and confidential information associated with recipes, process instructions, standard operating procedures, testing specifications and laboratory procedures relating to cream liqueur beverages identified in the Schedule; and intellectual property rights in documents described in Schedule 2 to the Deed. Other items of intellectual property are described in Schedule 1, but it is not necessary for me to mention them for present purposes.
4. “Intellectual Property Rights” are defined in the Deed in the following way:

… means the current and future, registered and unregistered, legal and equitable rights in the Intellectual Property including any copyright, rights pursuant to a patent or registered design, trade mark rights, eligible layout rights, rights to protect trade secrets, confidential information, knowhow or similar information whether at common law or conferred by statute and including any rights to apply for registration of such rights under a statute in respect of those or like rights throughout the world for the full period of the rights and/or renewals or extensions.

1. In the case of the second Deed of Assignment, the property assigned is the intellectual property rights licensed by the assignors to Bacchus by “various written and verbal arrangements, including the document dated on or about 8 June 2006 as amended by the document dated 16 March 2012”, but excluding the assignors’ right to recover any unpaid licence fees owing as at 26 September 2013 to the assignors under their agreement with Bacchus. The nature and content of the documents dated 8 June 2006 and 16 March 2012 respectively is described below (at [73] and [77] – [83]).
2. Another company which played a part in the relevant events is Scott Group Pty Ltd. That company was incorporated in Victoria on 1 June 2006 and Mr Scott and his wife are the directors and shareholders of the company.
3. Bacchus was incorporated in 1994. Mr Damien Hajdinjak and his father, Martin Hajdinjak, established the company. At all material times, Mr Damien Hajdinjak has been an executive director and the chief executive officer of Bacchus. He had a close involvement in the events which are the subject of Neobev’s claims. From 1994 until 2000, Bacchus operated a small distillery in Mordialloc in Victoria. It produced a small range of fortified wines, schnapps, liqueurs and cream liqueurs. All of these products had a grape spirit base. In 2000, Bacchus moved to larger premises in Bangholme, Victoria. Prior to being placed into administration by resolution of its directors on 9 September 2013, Bacchus employed approximately 20 staff, including three chemists, and it had an annual turnover for the financial year ended 30 June 2013 of approximately $12.6 million. It manufactured approximately 58 products which were sold under various brand names. Prior to 2003, the company had only one cream liqueur product on the market.
4. The claim and cross claim raise a number of issues for determination including the identity of the inventor or inventors of the invention (i.e. the process of producing clean wine spirit or “CWS” as it is referred to in some of the documents) which is the subject of Australian Standard Patent No. 2006201593 (“593 Patent”), the identity of the owner or owners of the 593 Patent, the terms governing the use by Bacchus of intellectual property said by Neobev to be its intellectual property and to be protected by the law relating to copyright material and confidential information and the proper construction and operation of an agreement dealing with the exploitation of the invention and the 593 Patent. By reason of the cross claim, there is also an issue about which of the parties to the cross claim are eligible persons for the purpose of Australian Patent Application No. 2011201999 (“999 Patent Application”). The 999 Patent Application is a divisional of the 593 Patent and relates to the same invention (*Patents Act 1990* (Cth) (“the Patents Act”), s 79B). As I understand it, the resolution of the issues in relation to the 593 Patent will also resolve the issues in relation to the 999 Patent Application.
5. As to the claim concerning the identity of the inventor or inventors of the CWS invention which is the subject of the 593 Patent, the Register kept in the Patents Office records the inventors as Mr Max Scott and Mr Damian Hajdinjak of Bacchus as co-inventors. Neobev claims that Mr Scott was the sole inventor of the CWS invention and that the Register should be rectified pursuant to s 192 of the Patents Act.
6. As to the claim concerning the ownership of the 593 Patent, the Register shows Bacchus as the registered owner. Neobev claims that in fact the true owners of the 593 Patent are Bacchus and itself in equal shares, and that its rights arise because of the assignment from MSC and Mr Scott. Neobev’s case is that in February 2005 Bacchus and Mr Scott agreed that although Bacchus would apply for a patent for the CWS invention in its own name, any such patent would in fact be owned jointly by the Scott interests and Bacchus. Neobev claims that MSC was a co-owner of the 593 Patent and it is the assignee of MSC’s rights in this respect. It claims that the Register should be rectified, or there should be a declaration of trust to reflect its beneficial co-ownership in the 593 Patent.
7. As to the claim concerning the use of intellectual property, this claim relates to Bacchus’ ability to assign the right to use information contained in 77 documents generated between June 2003 and the present. The documents consist of recipes and compositions, process instructions and operating procedures and testing specifications and laboratory procedures. All are said by Neobev to contain confidential information, and 28 of the 77 documents are also said to be protected by the law of copyright. Neobev’s case is that Bacchus’ licence to use the confidential information and copyright material has come to an end by reason of Bacchus being placed in administration. Bacchus, on the other hand, claims that the licence to use the documents and information in them is unconditional, irrevocable and transferrable.
8. As to the claim concerning the agreement dealing with the exploitation of the invention and the 593 Patent, the issue is the nature of Bacchus’ obligation in circumstances where its administrators propose to sell the 593 Patent and associated intellectual property to a third party purchaser and in particular whether the Court can and should order Bacchus to obtain, or use reasonable endeavours to obtain, a similar contractual promise (i.e., to pay the royalties) from a third party purchaser of Bacchus’ business.
9. The administrators of Bacchus seek to sell its business and they seek an urgent resolution of the issues raised in this proceeding before doing so.

# THE FACTS

1. Most of the facts were not in dispute and I will set them out in chronological order. In some cases there were differences about precisely when a particular event occurred, but as the differences were not material to the parties’ respective cases they were not explored in cross-examination or submissions. The disputed issues of fact primarily relate to the two issues of whether Mr Hajdinjak was a co-inventor with Mr Scott of the CWS invention and of whether there was an agreement between Mr Scott and Mr Hajdinjak about the ownership of the patent to be applied for in relation to the CWS invention as a result of a conversation on 7 February 2005. To maintain the narrative I will identify the nature of the dispute with respect to those matters in this section of my reasons, but I will set out my findings in a section dealing with the evidence of the key witnesses.
2. Mr Scott commenced his working career in the dairy industry in New Zealand in the late 1960s. He said, and I accept, that over the years he became familiar with the techniques used in the industry to treat dairy products to remove from them undesirable components and to refine the finished product. He also became familiar with the combinative qualities of dairy products and with the techniques used to combine dairy products with other products, including the creation and use of emulsifiers. In 1987, he started working with distilleries that produced cream liqueur products and since that time he has been, as he put it, and I accept, “heavily involved” in developing and improving cream liqueur products.
3. Mr Scott described the difficulties associated with producing cream liqueur products. I accept his description which I summarise below.
4. Cream and alcohol are non-combinative substances and emulsifiers are required to assist in the combination process. An emulsifier is a chemical ingredient which is designed to bind together substances such as oil and water which are normally non-combinative. There is also a further difficulty with cream liqueur products in that cream can deteriorate and breed organisms in the manufacturing process. Mr Scott said, and I accept, that cream liqueur products can be made from various base products, each of which has advantages and disadvantages in terms of the cost of production, flavour, texture and tax implications. Mr Scott identified the potential base products for cream liqueur products as grape (wine) spirit, ethanol, brandy (which contains grape and other compounds) spirit, wine (untreated) or wine products (treated wine).
5. In 1998, Mr Scott moved to Australia and he established MSC in 2001. He has been a director and employee of the company since that date. After he moved to Australia, Mr Scott began working in association with a company called Taste Master Pty Ltd (“Taste Master”). At the time, Taste Master was a supplier of flavours and emulsifiers to the food and beverage industry. Mr Andrew Fotheringham was the chief executive officer of Taste Master. Mr Scott helped Taste Master to manufacture blends, flavours and emulsifiers. From at least August 2002, Taste Master supplied flavours to Bacchus.
6. In about August 2002, Mr Fotheringham suggested to Mr Scott that he contact Mr Hajdinjak at Bacchus. The purpose of Mr Fotheringham’s suggestion was to involve Mr Scott in the possible development by Bacchus of its own cream liqueur product. The benefit to Taste Master in such a development was that it could then sell its emulsifiers and increase the sale of its flavours to Bacchus.
7. Mr Scott and Mr Hajdinjak met on 8 August 2002. After a number of discussions, an agreement was reached between Taste Master, Bacchus and Mr Scott on behalf of MSC. In broad terms, Taste Master agreed to provide the major plant and equipment for the establishment of a cream liqueur plant, Bacchus agreed to maintain and install the plant and equipment, and Mr Scott on behalf of MSC agreed to act as project manager in relation to the design and installation of the plant. Mr Scott also agreed to provide his know-how and recipes, processes and testing procedures. Under the agreement, Bacchus was bound to purchase its emulsifiers and flavours from Taste Master and Taste Master was to retain ownership of the plant and equipment and process. Mr Hajdinjak said that the plant and equipment was in fact returned to Taste Master in 2008 and that it was replaced by Bacchus at that time. The new cream liqueur plant was paid for by Bacchus and installed in 2008.
8. The plant and equipment provided by Taste Master was installed in Bacchus’ factory between March and June 2003. Mr Hajdinjak said that Bacchus spent approximately $100,000 on the new cream liqueur plant, including arranging (and paying for) the installation of the relevant utilities.
9. Mr Scott designed and installed the plant and equipment at the factory and for this work he was paid an amount of approximately $10,000 by Taste Master in the first half of 2004. He also provided ongoing assistance to Bacchus by way of writing recipes, varying recipes where necessary, inventing emulsifier compositions for Taste Master which could be used in the Bacchus products, and advising on and writing product manufacturing processes and product testing procedures. Taste Master paid MSC a commission for the additional sales of emulsifiers and flavours which it sold to Bacchus after the establishment of the cream liqueur plant. Among the emulsifiers Mr Scott developed for Taste Master, which that company then supplied to Bacchus, were those emulsifiers which became known as Max 1, Max 2, Max 3, Max 4 and Proemul.
10. As I have said, the 593 Patent relates to an invention involving a process for the production of clean wine spirit. The background to the invention according to Mr Scott is as follows. In early 2004, Bacchus was using a spirit base for its cream liqueur products which was expensive. A wine base was less expensive than a spirit base, but there were problems associated with a wine base because of the very low alcohol content and the presence of a wine aftertaste. According to Mr Scott, in January 2004 Mr Hajdinjak asked him to investigate the possibility of developing a less costly process for making cream liqueur products.
11. Mr Scott set about trying to develop a process for making a clean wine spirit which had no acidity, flavour or odour, a clear appearance, no excess tartrates, stability, pH neutrality and alcohol at about 22%. From February 2004, Mr Scott carried out a number of investigations and trials and eventually he came up with a process which involved the following key steps:

(1) nano filtration which is the separation of components by their molecular weight;

(2) ion exchange which results in a product which is pH neutral and from which more minerals have been removed; and

(3) charcoal filtration and carbon filtration which results in the removal of the wine flavours.

1. This staged filtration process is the CWS invention described in the specification to the 593 Patent. It resulted in the production of a clean wine spirit which had the attributes referred to in the preceding paragraph.
2. Mr Hajdinjak said that prior to 2003 all of the products produced by Bacchus used a grape spirit base. He said that a grape spirit base gave rise to problems in that impurities in the base caused the taste and flavour of the product to change over time in the bottle. From 2000, Mr Hajdinjak began research on how to produce an impurity-free or “clean” grape spirit base to incorporate into Bacchus’ products. He was aware of the typical processes for developing a grape wine spirit. He was also aware of various filtration methods and he conducted research on the internet and had discussions with various winemakers. He had discussions about various filtration methods with Mr Scott in late 2003 and early 2004. Mr Hajdinjak said that he carried out a test at Bacchus’ factory involving the process of reverse osmosis filtration. By June 2004, he and Mr Scott had discussed the key steps of the CWS invention, namely, nano filtration, ion exchange and carbon filtration.
3. In reply to Mr Hajdinjak’s evidence, Mr Scott denied that Mr Hajdinjak had any involvement in the development of the CWS invention. He said that Mr Hajdinjak never said anything to him to suggest he knew anything about the processes of nano filtration or ion exchange, or that he had any suggestions for solving the problems with a grape wine base. Nor did he say anything about researching the problems or that he had carried out a test involving reverse osmosis filtration.
4. It is convenient in the context of considering the evidence as to who created or formulated the CWS invention to mention at this point the evidence of Mr Robert Morton. Mr Morton was employed by Bacchus between January 2004 and late 2009. He worked for the company first as Product Manager and then as General Manager, Operations. He was involved in all day-to-day manufacturing issues at Bacchus and all new projects as the business expanded.
5. Mr Morton was called as a witness by Neobev and he was cross-examined by counsel for Bacchus. Although it was suggested to Mr Morton in cross-examination that he had reason to bear a grudge against Bacchus, that suggestion was denied by him and not otherwise established. I found Mr Morton to be a reliable witness. His evidence was fairly general, but I accept it for what it is worth. It establishes the following.
6. In early 2004, Bacchus was producing a product called “The Bushfire” and it had an ethanol alcohol base. That product was being phased out and being replaced by a product called “Bacchus Cream”, which also had an ethanol alcohol base. Both these products were made to recipes and production processes written by Mr Scott. Bacchus had a small cream liqueur plant and Mr Scott was heavily involved in formulating recipes, processing instructions, product specifications and testing procedures, and changes to these documents and activities. Mr Scott was the person who was solely in control of recipes.
7. In early 2005, Mr Morton was told by Mr Scott and Mr Hajdinjak that the product Bacchus was producing on a spirit base was too expensive because of excise duties and that Mr Scott was working on developing an alternative base for the cream liqueur product.
8. Mr Morton said that he heard or saw nothing to suggest that Mr Hajdinjak contributed to the CWS invention and he said that Mr Hajdinjak did not and could not have conducted any tests by using Bacchus’ reverse osmosis plant. For reasons I give below (at [97]), I think any such test (if it occurred) was inconsequential.
9. In 2007 or 2008, Mr Morton was involved in purchasing improved cream liqueur plant and equipment which he described as, in essence, a larger version of the smaller plant Mr Scott had designed.
10. I return to the narrative of events.
11. Mr Scott said that after he had developed the key elements of the CWS process, he approached Mr Hajdinjak and told him of the process. It was clear to Mr Scott and Mr Hajdinjak that to implement the process it would be necessary to purchase plant and equipment and to obtain finance for that purpose.
12. On Neobev’s case as to ownership of the 593 Patent, the period from about March 2004 to February 2005 is important. It is during this period that on Neobev’s case there were negotiations about who would own the patent to be sought for the CWS invention and final agreement was reached on that matter. It is Neobev’s case that on 7 February 2005 an agreement was reached between Mr Scott on behalf of MSC and Mr Hajdinjak on behalf of Bacchus about the ownership of the CWS invention and the patent to be sought in relation to it. It is not in dispute that during this period Bacchus applied for and obtained a government grant to fund the implementation of the invention.
13. In 2004 and 2005, Mr Bernie Kelemwork was employed by Bacchus as an accountant and project manager.
14. On 17 August 2004, Mr Scott and Mr Kelemwork met with a Mr Richard Barnes of AusIndustry for the purpose of discussing a government grant to fund the implementation of the CWS invention. Mr Scott and Mr Kelemwork made a presentation to Mr Barnes of the nature and benefits of the CWS invention and the funds needed to develop it. Mr Barnes told Mr Scott and Mr Kelemwork that the application for a grant would be more favourably received if the applicant for the grant had a patent for the process.
15. In late August and early September 2004, Mr Scott and Mr Kelemwork worked on the application for a government grant.
16. Bacchus was to be the applicant for the government grant and, based on what Mr Barnes had said, its chances of receiving the grant would be improved if it held a patent over the CWS invention.
17. On 29 October 2004, Mr Kelemwork wrote by email to Mr Scott and said, among other things:

The outstanding items are:

1) Patent application – addressing the patent issue is very crucial for the out come of the grant process.

…

Therefore, I need the resolution of the above points as soon as possible. It would be a shame if we lose the grant (after spending so much time and effort) because of the above issues.

Max, I know you are busy, but I need you and Damien to get together and finalise the Patent issue.

…

1. Bacchus made the application for a government grant in November 2004 and it was advised of the success of its application in December 2004. The grant was for an amount of up to $335,748.
2. It is convenient to mention at this point that to obtain the grant Bacchus was required to enter into an agreement with the Commonwealth of Australia, which it did on 31 January 2005. One of the general conditions in the agreement was that Bacchus was prohibited from dealing with or creating any encumbrance over the project intellectual property without the prior written consent of the Commonwealth.
3. In about November 2004, Mr Scott and Mr Hajdinjak exchanged draft written proposals for the sharing of “Patented intellectual property for CWS Technology”. The draft written proposals were as follows:
4. Ownership of the intellectual property 60% to Bacchus and 40% to Mr Scott with a similar sharing of any future royalties from the sale of the new technology to a third party. Bacchus to be exempt from any royalty payments for the use of the developed technology.
5. As in (1) above, but with a 50%/50% division of ownership.
6. Ownership of the intellectual property to Bacchus which will own the patent “outright” with “[t]he profits from products made under contract, toll processed, sold to other users or if the technology is on sold, will be split 60% Bacchus Distillery and 40% Max Scott Consulting Pty Ltd”. The draft agreement also provides that products made and sold through the Bacchus distribution network were to be exempt from the payment.
7. Mr Hajdinjak prepared the documents containing the first two proposals and Mr Scott the document containing the third proposal.
8. Mr Scott accepted that during this period he did at one stage propose that Bacchus have sole ownership of the CWS invention and he said that on 21 November 2004 he sent an email to Mr Hajdinjak in the following terms:

Re Agreement

I have changed the IP contract around slightly, as the way I read the documents, to get the grant money you need to own the IP. I will sign it over to you totally, but this will mean you have to patent the IP through the grant.

I have put the IP down as the various technologies we have or are going to use.

I have tried to clarify which products and manufacturing for which company will be involved.

I have also changed the percentage to 60/40 as I will be doing the work under your direction from the grant monies.

Please give me your thoughts on this proposal.

1. Mr Scott said that he put this proposal forward because he understood that Bacchus needed to own the intellectual property to get the government grant and he was prepared to transfer the ownership of the patent provided Bacchus agreed to give him 40% of the profits.
2. It is convenient at this point, before dealing with the alleged conversation on 7 February 2005, to outline the history of the patents with respect to the CWS invention. That history was established by the evidence of Dr Marcus Caulfield and is not in dispute.
3. Dr Caulfield is a patent attorney and partner of FB Rice. FB Rice is a firm of registered patent and trademark attorneys. Bacchus retained FB Rice in relation to various applications it made for trademarks and patents.
4. Dr Caulfield gave evidence for Bacchus. His affidavit was tendered and he was not required for cross-examination. His evidence establishes the following.
5. Bacchus’ retainer of FB Rice in relation to patents and trademarks commenced in September 2004 and came to an end when administrators were appointed to Bacchus on 9 September 2013. FB Rice maintained six patent files in relation to Bacchus, all of which related to the CWS invention. Dr Caulfield was responsible for those files after April 2009. Four of the files related to applications made in Australia, and the other two related to applications made in New Zealand.
6. Mr Scott and Mr Kelemwork provided instructions to FB Rice concerning the patent files with the former providing the bulk of the instructions, including all of the technical instructions concerning the CWS invention. FB Rice had instructions that Mr Hajdinjak was a co-inventor of the CWS invention. Bacchus paid all of FB Rice’s fees in relation to the patent files.
7. FB Rice’s Australian provisional file was opened in September 2004 and Bacchus entered into a written engagement with FB Rice at that time. Mr Scott and Mr Kelemwork met with representatives of FB Rice on 3 September 2004. The representatives of FB Rice were told that Bacchus was to be the applicant for the patent and that Mr Scott and Mr Hajdinjak were the inventors. They were told that Mr Scott and Mr Hajdinjak had been working on the project for about a year.
8. Mr Scott and representatives of FB Rice met on 23 November 2004 and the latter were told that the provisional specification was to be filed in the name of Bacchus.
9. On 24 December 2004, FB Rice sent a second draft of a provisional specification to Mr Scott for his review. On 9 February 2005, Mr Scott contacted FB Rice and told them that the provisional specification did not require any major changes. There is a note that Mr Scott told FB Rice that the provisional specification was to be filed in the name of Bacchus. There is also a note by a representative of FB Rice to the effect that the file was to be under Mr Scott’s name until the “assignment with Bacchus completed”. This note is crossed out.
10. There is a note by a representative of FB Rice that Mr Kelemwork contacted her on 12 April 2005 and advised her, among other things, that Mr Scott was the only inventor and that the application was to be filed in the name of Bacchus.
11. FB Rice filed a provisional application for the CWS invention in the name of Bacchus on 13 April 2005.
12. FB Rice wrote to Bacchus by letter dated 13 October 2005 advising it that the final and non-extendable deadline for filing a further patent application claiming priority for the provisional patent application expired on 13 April 2006.
13. Mr Scott met with representatives of FB Rice on 5 December 2005.
14. In early 2006, Bacchus instructed FB Rice to file an International Patent Cooperation Treaty application (“PCT Application”) claiming priority from the provisional application, an application for an Australian Standard Patent and an application for a New Zealand Standard Patent. FB Rice did that on 13 April 2006 and, in each case, Bacchus was the applicant or nominated person and Mr Scott and Mr Hajdinjak were named as the inventors. FB Rice sent copies of the applications to Bacchus and copies to Mr Scott. A copy of the PCT application was seen by Mr Scott and approved by him.
15. The New Zealand application for a standard patent, unlike the Australian application, required a statement of the names of the inventors and the applicant’s right to apply for the patent. In the case of that application, the inventors were identified as Mr Scott and Mr Hajdinjak, and Bacchus’ right to apply for a patent for the invention was said to be, “by virtue of assignment”.
16. There were difficulties with the application for the New Zealand Standard Patent and that led to an application for a Divisional Patent. It is not necessary to set out the details. Both applications led to the grant of Letters Patent to Bacchus in April 2009.
17. In relation to the Australian Standard Patent, an application was made by FB Rice on behalf of Bacchus for a modified examination. A Notice of Entitlement was also filed by FB Rice stating that Bacchus was entitled to the invention, “by virtue of a contract of employment”.
18. The modified Australian Standard Patent Application was accepted by the Patents Office and Bacchus and Mr Scott were asked to advise if there were any details, including the identity of the applicant and the inventors, which were incorrect. No such advice was given to the Patents Office.
19. On 16 June 2011, Letters Patent in relation to the CWS invention were granted naming Bacchus as the patentee and Mr Scott and Mr Hajdinjak as inventors.
20. In May 2011, Mr Scott, on behalf of Bacchus, instructed FB Rice to file an application for an Australian Divisional Patent. An application was filed and became 999 Patent Application. A Notice of Entitlement filed in connection with the application stated that Bacchus was entitled to the invention, “by virtue of a contract of employment”.
21. I turn now to the alleged conversation about the ownership of the CWS invention between Mr Scott and Mr Hajdinjak at Bacchus’ factory on 7 February 2005. Mr Scott said that Mr Hajdinjak said to him that it was necessary to solve the “patent issue” and they discussed the ways in which that might be done. Mr Scott’s evidence was that Mr Hajdinjak said:

Can we agree to put the patent in the name of Bacchus to suit the grant application, but we will in fact jointly own the patent? In return, Bacchus will pay you 5c per litre for clean wine spirit sold.

Mr Scott said that he replied as follows:

I would want 10c a litre where the clean wine spirit was being sold outside of being used at Bacchus. I also want to have the ability to have to use the clean wine spirit for other purposes and for other people who might want to buy it. Other people might want to buy the process of making clean wine spirit and I want to be able to sell that to them and support it without having Bacchus involved.

Mr Scott said that Mr Hajdinjak said in response:

OK let’s agree on that basis.

1. Mr Hajdinjak denies having this conversation with Mr Scott. He said that he believed at all times that Bacchus owned the patent. Mr Hajdinjak said that he was prepared to recognise Mr Scott’s contribution, but he said that how that was to be done was not resolved in February 2005. Mr Hajdinjak produced the project diary for 27 February 2005 which contained a note to the effect that the patent would be 100% owned by Bacchus and that there would be a separate agreement between “Max and Damien. Will haggle”. The identity of the author of this note and the author’s knowledge of the negotiations between Mr Scott and Mr Hajdinjak was not made clear by the evidence.
2. Mr Scott said that he went to see Mr Kelemwork on the same day (i.e. 7 February 2005) and told him what he had agreed with Mr Hajdinjak. The fact of a meeting on 7 February 2005 between Mr Scott and Mr Kelemwork is confirmed by an email Mr Kelemwork sent to Mr Scott the following day (i.e. 8 February 2005) in which he said:

Following on our meeting yesterday (and in addition to the email I sent earlier), below are things that we need to finalise in the coming weeks:

…

2. Preparation of a legal document for the agreement between the two companies on the sharing of the IP to be developed. You are to prepare this document – the cost will be covered by the grant.

3. The IP pending application to be finalised with the automies [sic., authorities] as soon as possible – you are to contact Helen and finalise the last stages.

1. Mr Scott did not prepare the legal document which it was contemplated that he would prepare.
2. Between about March 2005 and June 2006, Mr Scott designed a plant capable of performing the process which was the subject of the CWS invention. The plant was installed in Westend’s Winery at Griffith and later moved to Bacchus’ factory, and then later still moved to Davidson Beverages’ premises in Dandenong South which company operated the CWS plant on Bacchus’ behalf. From 2008 to the date Bacchus went into administration, clean wine spirit was produced by Davidson Beverages. Bacchus continued to purchase the emulsifiers and flavours it used in its cream liqueur products from Taste Master until it went into administration.
3. Mr Hajdinjak said that he did not agree the benefit which was to be given to Mr Scott for his role in developing the CWS invention until early 2006. At that time, a royalty rate calculated on each litre of product produced by the clean wine spirit process was agreed.
4. On 8 June 2006, Mr Scott sent an email to Mr Hajdinjak in which he referred to the fact that the clean wine spirit plant was nearing the end of commissioning and would start producing a product from the unit. He said that he would like to agree on the terms “we discussed some months ago”. He set out what he said was the basis of what he and Mr Hajdinjak had discussed. He said that he would prepare a legal document if Mr Hajdinjak agreed. He then set out various terms involving the payment of a “royalty” by Bacchus to the Scott interests of a number of cents per litre of finished product produced by the clean wine spirit process. The amount of the royalty varied depending on whether the clean wine spirit process was used to make product for Bacchus or sold outside “the Bacchus and related companies’ sphere”. The royalties were to be paid quarterly into the Scott Family Trust. I will refer to this email as the June 2006 royalty agreement.
5. There is no evidence that there was a written response to this email and Mr Scott did not arrange for a legal document to be prepared.
6. Mr Scott, through the Scott Group Pty Ltd, did start sending invoices to Bacchus for royalties calculated on the agreed basis. This continued until Bacchus ceased production in August 2013.
7. Mr Hajdinjak said that in the second half of 2006 he and Mr Scott agreed that the Scott Group would invoice on the basis of 10 cents per litre of clean wine spirit, but that the Scott Group would remit 5 cents per litre to a company called Split Two Pty Ltd (“Split Two”). Mr Hajdinjak was a director of Split Two and according to him the payment was made in recognition of his contribution to the invention of the CWS process. Mr Scott acknowledged this arrangement, but said that Mr Hajdinjak did not say that he was a director of Split Two or that the payment was to be made in recognition of Mr Hajdinjak’s role as an inventor.
8. In February and March 2012, a two page document entitled “Agreement between BDS International and Scott Group for the processing of clean wine spirit” was prepared and was signed by Mr and Mrs Scott on behalf of the Scott Group and Mr Hajdinjak on behalf of BDS International.
9. “BDS International” was described in the document as:

… a manufacturer of alcoholic beverages, which is mainly based on clean wine spirit, with packing facilities and distribution throughout Australia.

1. BDS International is now known as “Bevtek Ltd” and it holds all the shares in Bacchus.
2. “Scott Group” was described as:

… the mother company of Max Scott Consulting, which specialises in research and development and intellectual property for the alcohol and food industries.

1. In a section entitled “Background”, the agreement states that an agreement was worked out where Max Consulting would pass the IP to BDS International and that in return Scott Group would receive a royalty on each litre of clean wine spirit produced. Reference is also made to the “patenting of this process so as to protect the IP”. This resulted in the 593 Patent. By its terms the agreement was designed to replace the June 2006 royalty agreement.
2. Under the heading “Price Schedule” there is a reference to a review and consequential increase in the royalty rate in August 2011. There is a clause which provides for future reviews to take place every two years with the next review to take place in August 2013.
3. Under the heading of “Terms of Payment” the following appears:

…

Should Bacchus sell the process to another company, the royalty on that line would be at 10 cents per litre of finished product.

The agreement will remain in place for 20 years from the date of issue of the patent.

Should Bacchus sell to another company or change its name, it will continue to honour this agreement.

1. I will refer to this agreement as the March 2012 royalty agreement.
2. Although the evidence is not entirely clear, it seems that Taste Master paid MSC a commission – 50% of Taste Master’s profit earned – for the additional emulsifiers and flavours which it sold to Bacchus after the establishment of the cream liqueur plant for Bacchus.
3. The evidence as to the payment of fees to Mr Scott and MSC establishes the following:

(1) Taste Master paid MSC the amount of approximately $10,000 in the first half of 2004 in relation to the establishment of the cream liqueur plant and the ongoing commission of 50% of Taste Master’s profit earned.

(2) Mr Scott visited three wineries in early 2004 in relation to the invention. The expenses were expenses of MSC and that company was reimbursed by Bacchus.

(3) Bacchus paid MSC fees calculated by reference to an hourly rate for work done between early 2005 and mid 2006.

(4) The royalties paid by Bacchus to the Scott interests in and after 2006 appear from the invoices to have been paid to Scott Group Pty Ltd.

1. Bacchus produced a number of products which were based on the Bacchus cream. In relation to each of these products, the key documents were a recipe, a process instruction and standard operating procedures for manufacturing them, and a testing specification and laboratory procedures for analysing them. The confidential information and copyright claim relates to documents of this nature.
2. A recipe is a list of the key ingredients that make up the product when it is manufactured in a batch of a particular size. They are sensitive documents and part of the core “know-how of the business”. A specification is a set of parameters which lay down the boundaries for the acceptable physical characteristics of an end product. The process instruction for a particular product is a set of instructions regarding the sequence in which the ingredients that make up the product are to be combined to ensure that the product is produced with the necessary taste, consistency and stability.

# THE KEY WITNESSES – MR SCOTT AND mR Hajdinjak

1. The starting point is an examination of the respective contributions of Mr Scott and Mr Hajdinjak to the CWS invention. This is the starting point because it provides the context for the negotiations between Mr Scott and Mr Hajdinjak about the ownership of the CWS invention and the patent to be sought with respect to it.
2. The problem with the base product of a cream liqueur product in January 2004 was that a spirit base was expensive because of excise duties, whereas a wine base did not involve the same expense. However, because of impurities in the wine base, the taste and flavour of the cream liqueur product could change over time as the product sat on the shelf. These problems with a wine base were known to Mr Scott, Mr Hajdinjak and manufacturers in Australia in January 2004.
3. The evidence as to the base being used by Bacchus in January 2004 was conflicting and confusing. I accept Mr Scott’s evidence that at that time Bacchus was purchasing its base from Toorak Winery and that it was wine spirit and ethanol based, and the grape spirit had similar problems to those associated with a wine base.
4. Mr Scott and Mr Hajdinjak discussed these problems in January 2004. Mr Scott said that foremost in Mr Hajdinjak’s mind was the expense of using a spirit base. That might have been discussed, but Mr Hajdinjak was also aware of the taste problems with a wine base and he discussed these problems with Mr Scott. Mr Hajdinjak told Mr Scott that he had had consumer feedback about the taste problems. Both Mr Scott and Mr Hajdinjak were aware that the taste problems were caused by impurities in the wine base and they discussed that fact.
5. Mr Hajdinjak asked Mr Scott to investigate the problems which the latter did.
6. I accept Mr Scott’s evidence that Mr Hajdinjak had no real knowledge of the different filtration methods, for example, nano filtration and carbon filtration, and that when Mr Scott discussed them with Mr Hajdinjak it was after he had “designed” the process and he had to explain to Mr Hajdinjak what they involved. I think Mr Hajdinjak accepted in cross-examination that his research and knowledge of various filtration methods was either non-existent or superficial.
7. I accept Mr Scott’s evidence that Mr Hajdinjak played a role after he, Mr Scott, had identified the key elements of the CWS invention. That role was to carry out tests and to determine in 2004 whether the suggested process was commercially viable and that involved a consideration of the scale of the process and whether it could be made cost-effective. The evidence of the tests carried out was sparse. Mr Hajdinjak said, and I accept, that he carried out tests involving the “sizing of plants” and the “sizing of membranes”.
8. Mr Scott said that his understanding of the concept of an inventor of an invention was the person who came up with the idea and put the idea into practice. The person who plays a part in the commercialisation of the invention (and, as I have said, Mr Scott accepted that Mr Hajdinjak played a role in this respect) is not the inventor. Mr Scott said that he proffered documents in connection with the applications for patents in relation to the CWS invention, or allowed documents to be proffered, showing Mr Hajdinjak as a co-inventor because Mr Hajdinjak had wanted his name on the patent.
9. Mr Hajdinjak gave evidence that he conducted a filtration test in 2004 by using a small reverse osmosis water plant at Bacchus’ factory. The plant was used by Bacchus to distil water or, as Mr Hajdinjak put it, filter water. In view of Mr Morton’s evidence and Mr Hajdinjak’s evidence in cross-examination that he did not do a trial, but attempted one, and that as far as reverse osmosis was concerned he did not even really test the process because he did not have the equipment to test it, any attempted test involving Bacchus’ small reverse osmosis water plant, if there was one, was so insignificant as to add nothing to Bacchus’ case that Mr Hajdinjak was a co-inventor of the CWS invention.
10. Nor is the arrangement involving Split Two of any significance to that issue. I accept Mr Scott’s evidence that Mr Hajdinjak did not say that the arrangement was in recognition of Mr Hajdinjak’s role as an inventor and he did not tell Mr Scott that he was a director of Split Two. Mr Hajdinjak told Mr Scott that the arrangement was to be put in place because Split Two had contributed some capital towards the development of the process. In cross-examination, Mr Hajdinjak seemed to accept that he did not tell Mr Scott that he was a director of Split Two and he said that Split Two put capital into Bacchus not only for the plant and equipment, “but it put in capital as an investment”.
11. I turn now to the issue of the ownership of the 593 Patent. The resolution of this issue depends on whether Mr Scott’s evidence of the conversation on 7 February 2005 should be accepted, or whether Mr Hajdinjak’s evidence that there was no such conversation should be accepted.
12. Both Mr Scott and Mr Hajdinjak gave their evidence-in-chief by way of affidavit and there was no application in either case to supplement their evidence-in-chief. In his principal affidavit, Mr Scott deposed to the conversation with Mr Hajdinjak on 7 February 2005 in paragraphs 76-78. I have already set out the details (at [67]). In his affidavit, Mr Hajdinjak said at [79]:

79 I have read the account of the conversation between Scott and I set out in paragraphs 76 to 78 of the Scott affidavit. To the best of my knowledge, Scott and I did not have the conversation that is set out in those paragraphs. It was always my understanding and intention that the patent had to be wholly owned by Bacchus and no-one else. That is what I believed the grant required. Accordingly, I would never have said (and did not say) “can we agree to put the patent in the name of Bacchus to suit the grant application, but we will in fact jointly own the patent”. While I was happy to work out an arrangement to recognise Scott’s contribution in some way, it was absolutely clear to me that the patent was to be owned by Bacchus.

1. In cross-examination of Mr Hajdinjak, counsel for Neobev obtained what he contends is an admission by Mr Hajdinjak that although the patent was to be registered in Bacchus’ name, there was an agreement that the CWS invention and the patent to be sought with respect to it would be owned jointly by the Scott interests and Bacchus. Mr Hajdinjak did not identify precisely when this agreement was reached and counsel for Neobev did not specifically put to him that he was in error in stating that he did not have the alleged conversation with Mr Scott on 7 February 2005. This gave rise to a submission by counsel for Bacchus that there had been a breach of the rule of practice known as the rule in *Browne v Dunn* ((1893) 6 R 67 (HL)).
2. I do not think that there has been a breach of the rule in *Browne v Dunn*. Bacchus was on notice that Neobev claimed that there was a conversation between Mr Scott and Mr Hajdinjak on 7 February 2005 and of the contents of the conversation, and had an opportunity to respond to it, which it did, by way of Mr Hajdinjak’s evidence: *Flower & Hart (a firm) v White Industries (Qld) Pty Ltd* [1999] FCA 773; 87 FCR 134 at 148 [51] per Lee, Hill and Sundberg JJ; Heydon J D, *Cross on Evidence* (9th ed, LexisNexis, Butterworths Australia, 2013).
3. I have carefully scrutinised Mr Scott’s evidence about the alleged conversation on 7 February 2005 for a number of reasons. First, Mr Scott made no claim to ownership of the 593 Patent until September 2013 and then, when he did, he claimed sole ownership. Mr Scott’s explanation for making a claim to sole ownership was not, considered in isolation, wholly convincing. He said that he received advice from a man recommended by FB Rice, to the effect that upon Bacchus going into administration the company lost or forfeited its 50% interest in the 593 Patent. He could not recall the name of the man who gave the advice. Secondly, Mr Scott said that at one time he was prepared to give up his claim to ownership of the CWS invention and patent on receiving 40% of the profits generated by the invention. He said that he anticipated profits of $200,000+ per annum. He added that he would not agree to this arrangement for the profits actually made. The figure he mentioned as to the profits actually made was $50,000. How the profits actually made were relevant to what Mr Scott actually agreed was never made clear. Thirdly, not only did Mr Scott not assert a claim to ownership of the 593 Patent, but he actively participated in the preparation and submission of documents – the various patent applications, the application for a grant to AusIndustry and a proposal for nano filtration at West End Winery – where Bacchus was put forward or named as owner. His explanation for this appeared to be that the nature of the agreement he reached with Mr Hajdinjak was that Bacchus would be the registered owner of the patent and that that was dictated by the circumstances surrounding the government grant. Fourthly, Mr Scott was prepared in November 2004 to forego any ownership rights to a patent in return for 40% of the profits. His explanation for this was that his position changed and that the negotiations moved on from this point. Fifthly, Mr Scott signed the March 2012 royalty agreement and that said that an agreement was worked out where MSC “would pass the IP to BDS International”. His explanation for this was that he meant giving “them” the detail or information to make the processes work. Finally, the email comprising the June 2006 royalty agreement refers to discussions “some months” previously whereas the evidence of Mr Scott (the author of the email) was that the discussions occurred in February 2005.
4. I have, as I have said, considered these matters carefully. Nevertheless, I accept Mr Scott’s evidence of the conversation which took place on 7 February 2005. Mr Scott was on any view of the evidence, the main contributor to the formulation of the CWS process. The evidence supports a finding that there was a high level of trust between Mr Scott and Mr Hajdinjak, and that Mr Scott was somewhat unsophisticated when it came to legal arrangements. He did not follow up discussions with formal agreements. Furthermore, while Bacchus was operating and bearing in mind the royalty agreements and, for example, the term of the March 2012 royalty agreement (i.e., 20 years from the date of the issue of the patent), the parties would not have had a particular need to direct their attention to ownership issues. Mr Scott was prepared to allow the 593 Patent to be in Bacchus’ name because of the requirements of the government grant. The parties were clearly negotiating in 2004 and I infer from Mr Kelemwork’s email dated 8 February 2005 that those negotiations were ongoing at least up until 7 February 2005. The reference to “some months” in the email dated 8 June 2006 is to be taken into account, but I do not think that it is a matter of particular significance in view of Mr Scott’s somewhat informal approach at the time to matters which now seem significant. In any event, it is not sufficient to outweigh my reasons for accepting Mr Scott’s evidence. Importantly, I do think that Mr Hajdinjak admitted in cross-examination that the culmination of the prior negotiations evidenced by the documents generated in late 2004 was an agreement (not be documented) that ownership was to be shared equally between the Scott interests and Bacchus.
5. I have read the re-examination of Mr Hajdinjak a number of times. I note that Mr Hajdinjak read the transcript of his cross-examination before he gave his evidence in re-examination. Bacchus contends, I think, that the re-examination makes it clear that in cross-examination Mr Hajdinjak’s agreement to the propositions put to him related to an earlier point in time in the negotiations and did not represent the final agreement between the parties. I think the re-examination is confusing and I am not satisfied that Mr Hajdinjak was under any misapprehension in cross-examination. I think he understood that he was being asked about an understanding or agreement that was not to be documented because of the requirement associated with the government grant that any patent be in the name of Bacchus. Even if I should approach Mr Hajdinjak’s evidence about the alleged conversation on 7 February 2005 in a more sympathetic way, it remains at the very least confusing and not a clear refutation of Mr Scott’s account.

# THE IDENTITY OF THE INVENTOR(S)

1. “Invention” is defined in the Patents Act (Schedule 1); “inventor” is not. Bacchus’ case is that Mr Scott and Mr Hajdinjak were joint inventors. Joint inventorship has been described by an American judge as one of the muddiest concepts in the muddy metaphysics of patent law. In *Mueller Brass Co v Reading Industries Inc* 352 F Supp 1357; 176 USPQ 361 (1972) (United States District Court, Eastern District of Pennsylvania); affirmed by the Court of Appeals, Third Circuit (487 F2d 1395 (1973)), Newcomer J said:

The exact parameters of what constitutes joint inventorship are quite difficult to define. It is one of the muddiest concepts in the muddy metaphysics of the patent law. On the one hand, it is reasonably clear that a person who has merely followed the instructions of another in performing experiments of another is not a co-inventor of the object to which those experiments are directed. To claim inventorship is to claim at least some role in the final conception of that which is sought to be patented. Perhaps one need not be able to point to a specific component as one’s sole idea, but one must be able to say that without his contribution to the final conception, it would have been less – less efficient, less simple, less economical, less something of benefit. This Court has found no case in which co-inventorship status was recognised where the alleged co-inventor was not deemed in some way, at least presumptively, to have beneficially affected the final concept of the claimed invention, and if such case exists, it would be so anomalous as to warrant little attention.

1. At the outset it is important to note some features of this case. First, the claim to joint inventorship is based on collaboration between Mr Scott and Mr Hajdinjak. Secondly, this is not a case where the parties sought to dissect the claims in the 593 Patent and make submissions as to who contributed what to particular claims. Thirdly, this is not a case in which expert evidence was called to explain the technical features of the invention and precisely how it is said to be novel and to involve an inventive step. Fourthly, the way the case was run by Neobev was first to identify what it said were three stages in the development of the invention as follows:
2. Discussions between Mr Scott and Mr Hajdinjak about the problem of the wine after-taste caused by impurities in the wine base.
3. Development by Mr Scott of the concept of the multiple filtration methods which was said to be the conception of the invention.
4. Steps directed towards the commercialisation of the invention including tests designed to determine if it could be made commercially effective.

Next, Neobev sought to identify the party or parties who made a contribution at each particular stage. Finally, the facts are to be assessed in a context in which Mr Scott, with the understanding he had as to the concept of who was an inventor (see [96] above), put forward Mr Hajdinjak as a co-inventor apparently on the simple basis that Mr Hajdinjak said he wanted his name to appear on the patent and he (Mr Scott) did nothing to change the record as to Mr Hajdinjak’s position as a co-inventor for a period of over eight years.

1. In *Polwood Pty Ltd and Others v Foxworth Pty Ltd and Others* [2008] FCAFC 9; 165 FCR 527 the Full Court of this Court considered the concept of joint inventorship. The Court formulated a number of propositions which were based on existing authority. First, whether someone is properly described as a joint inventor is not determined by quantitative contribution, but rather, qualitative contribution. The contribution does not have to be equal to the other person’s and the key question is whether there has been a contribution to the *invention*. Secondly, in some cases it may be helpful to look to the claims and in some cases evidence may assist. It is important to look at what the invention is said to be. For example, a contribution to the construction of an apparatus may be sufficient where the invention is the apparatus and insufficient where the construction of the apparatus can be done by simply following the instructions in the specification. Thirdly, the key question is whether the person’s contribution had a material effect on the final invention. Fourthly, it is sometimes useful to approach the issue by asking who conceived the solution to a problem (*Stack v Davies Shephard Pty Ltd* (2001) 108 FCR 422 at 432 [22]), but that will not always be so because not all inventions are susceptible to a problem and solution analysis (*Aktiebolaget Hassle v Alphapharm Pty Ltd* (2002) 212 CLR 411; *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* (2007) 81 ALJR 1070; 235 ALR 202). Fifthly, rights to an invention are determined by objectively assessing contributions to the invention rather than assessing the inventiveness of respective contributions and if the final concept of the invention would not have come about without a particular person’s involvement, then that person has an entitlement to the invention (*JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2005) 67 IPR 68 at [132]). Finally, and importantly because of the argument put by Bacchus in this case, a person may be considered a joint inventor where they had a general idea of what was required, but someone else was required to put the ideas into effect and did so (*Costa v G R & I E Daking Pty Ltd* (1994) 29 IPR 241).
2. I have given this matter anxious consideration particularly in light of the last matter in paragraph 107 above. The key question is whether Mr Hajdinjak’s role had a material effect on the final concept of the invention. I am unable to see that it did. It is true that he was aware of the problem of the wine after-taste caused by the impurities in the wine base and that he discussed it with Mr Scott. However, I do not think this is a case where identifying the problem is significant because I think Mr Scott and manufacturers in 2004 were all aware of the problem. Working jointly or in collaboration with somebody about various filtration methods might be enough but I do not think that that is what happened in this case. Particularly in light of what Mr Hajdinjak said in cross-examination, I do not think that his knowledge of the various filtration methods can be described as other than superficial or non-existent. Finally, there is nothing to suggest that Mr Hajdinjak did anything during the third stage which could be properly described as having a material effect on the final concept of the invention. The tests he carried out were either carried out at Mr Scott’s suggestion or were designed to determine the best commercial way of exploiting the invention.
3. I conclude that Mr Scott was the sole inventor of the CWS invention. I will hear the parties as to the appropriate orders in light of this conclusion.

# The owner(s) of the 593 Patent

1. Bacchus claims that Mr Scott and Mr Hajdinjak, or Mr Scott alone (if, contrary to its case, Mr Scott is the sole inventor), assigned their rights to the CWS invention, or the right to apply for a patent for the CWS invention, or the patent application itself to Bacchus. Unlike the assignment of a patent, an assignment of such rights did not need to be in writing and signed by or on behalf of the assignor and assignee (Patents Act, s 14; *University of British Columbia and Another v Conor* *Medsystems Inc* (2006) 155 FCR 391; 70 IPR 248; *Preston Erection Pty Ltd and Another v Speedy Gantry Hire Pty Ltd* (1999) 43 IPR 74 at 82 per Wilcox, Heerey and Lindgren JJ.)
2. Neobev accepts that it was agreed that the patent would be in the name of Bacchus, but contends that it was agreed that Bacchus would hold the patent jointly for itself and MSC.
3. For the reasons I have given, I have found that there was an agreement that the patent would be in the name of Bacchus, but that Bacchus and Mr Scott (or MSC) would jointly own the patent.
4. It seems to me that the effect of the agreement as to joint ownership in circumstances where it was agreed that the patent was to be in Bacchus’ name is to give rise to an express trust over the 593 Patent in favour of Bacchus and MSC in equal shares.
5. The intention of the parties established by this conversation is that the CWS invention and all the rights associated with it, including the right to apply for a patent was assigned to Bacchus but subject to a trust whereby Bacchus would hold the invention and rights for itself and MSC in equal shares. It is not necessary that the word “trust” be used providing the intention to create a trust is clearly established. Whether such an intention is established is determined objectively and not by reference to a party’s actual intention (see *Byrnes v Kendle* (2011) 243 CLR 253 at 263 [17] per French CJ; at 274 [55] per Gummow and Hayne JJ; at 290 [115] per Heydon and Crennan JJ). A declaration of trust is to be distinguished from an equitable assignment, although in both cases a party becomes entitled to an equitable interest (*Comptroller of Stamps (Victoria) v Howard Smith* (1936) 54 CLR 614 at 621-622 per Dixon J (as his Honour then was)). Furthermore, a trust may be declared over property to be acquired in the future (in this case, the 593 Patent): *Associated Alloys Pty Limited v ACN 001 452 106 Pty Ltd (in Liquidation) and Another* (2000) 202 CLR 588 at 603 [28] per Gaudron, McHugh, Gummow and Hayne JJ.
6. Bacchus raised a plea to the effect that MSC and Mr Scott, and Neobev as their assignee, are estopped from contending that Bacchus is not the sole owner of the 593 Patent. The particular form of estoppel which it raises is estoppel by conduct (*Thompson v Palmer* (1933) 49 CLR 507; *Grundt v The Great Boulder Pty Gold Mines Limited* (1937) 59 CLR 641; *Con-Stan Industries of Australia Pty Ltd v Norwich Winterthur Insurance (Australia) Limited* (1986) 160 CLR 226 at 244). The argument is that Bacchus believed it was the sole owner of the 593 Patent and proceeded to develop it and expend funds in relation to it in that belief. The contention fails on the facts once it is found that the conversation on 7 February 2005 occurred. Mr Hajdinjak, whose belief is to be attributed to Bacchus, did not believe that Bacchus was the sole owner of the 593 Patent. Alternatively, MSC did nothing to contribute to any belief of Bacchus as to the ownership of the 593 Patent.
7. Counsel for Bacchus accepted that an equitable interest under such a trust may be registered (Patents Act, s 187; *Patent Regulations 1991* (Cth), reg 19.1) and that that is not prevented by s 188 which has been read narrowly (*Casey’s Patent; Stuart v Casey* [1892] 1 Ch R 104). In that case, Bowen LJ said (at 116):

Trusts had been registered up to that time by the Patent Office; but this section intended that notices of trusts, as distinct from documents which created trusts in Equity, were not to be sent to the Comptroller and entered upon the register.

1. I will hear the parties as to the appropriate orders in light of the conclusions in this section of my reasons.

# specific performance of the royalty agreement

1. As I have said, Bacchus ceased production of its alcoholic beverages in August 2013 and it was placed in administration on 9 September 2013. The administrators of Bacchus propose to sell its business. Neobev claims that it is entitled to an order for specific performance of the following provision in the March 2012 royalty agreement:

Should Bacchus sell to another company or change its name, it will continue to honour this agreement.

1. This provision is said by Neobev to entitle it to an order against Bacchus requiring Bacchus, on the sale of its rights in relation to the 593 Patent to a third party purchaser, to include in the sale agreement a provision requiring that purchaser to continue to honour the March 2012 royalty agreement including the obligation to pay royalties to MSC or its nominee.
2. Bacchus advanced a number of arguments in opposition to this claim.
3. First, it contends that Neobev has no right to bring the claim. It submits that any rights under the March 2012 royalty agreement are held by Scott Group Pty Ltd and the rights Neobev has are the rights assigned to it by MSC and Mr Scott. There was no assignment of rights to Neobev by Scott Group Pty Ltd. Neobev’s response to this submission is that the reference in the March 2012 royalty agreement to Scott Group was a misnomer and the correct party is MSC. In the alternative, Neobev contends that Scott Group Pty Ltd entered into the agreement recorded in the document “for and on behalf of its subsidiary MSC”. I should say that although the March 2012 royalty agreement refers to BDS International, Bacchus does not contend that it is not bound by the agreement.
4. Secondly, Bacchus contends that MSC and Mr Scott terminated the March 2012 royalty agreement by letter from its solicitors to Bacchus’ administrators dated 16 September 2013 and that any rights to specific performance went with the termination of the agreement.
5. Thirdly, Bacchus contends that the provision in the March 2012 royalty agreement is void for vagueness and uncertainty. It contends that there are a number of possible constructions of the provision and there is nothing to indicate which particular construction should be preferred. For example, it cannot be determined whether, in referring to a sale by Bacchus, the clause is referring to a sale of Bacchus’ business or of its assets, or some of its assets, or, perhaps even, a sale by Bacchus’ shareholders of their shares in Bacchus. It might be said that a provision for the latter circumstance would be unnecessary, but on the other hand, so would a provision dealing with a change of name and that is included in the provision. Bacchus also contends that there is uncertainty in the provision about the identity of the party which is to continue to honour the agreement. In one sense of course it must be Bacchus as it is the party to the agreement, but is it to continue to honour the agreement by extracting an undertaking from the purchaser or itself continuing to pay the royalty? Is it bound to extract a similar undertaking from the purchaser, or is it bound to use reasonable endeavours to extract a similar undertaking from the purchaser?
6. Fourthly, Bacchus contends that even if the obligation on it can be defined precisely, nevertheless it is not the type of obligation a Court will enforce by an order for specific performance. Damages, it was submitted by Bacchus, is an adequate remedy.
7. In my opinion, the provision is vague and uncertain and void for that reason. Each of the other arguments raise matters of substance and warrant further elaboration, although I will not express a final view in relation to them.
8. As to Bacchus’ first argument, there are a number of matters which support Bacchus’ argument. First, the March 2012 royalty agreement does refer to Mr Scott, MSC and Scott Group by those names in different parts of the agreement. In other words, it does distinguish between those “entities”. Secondly, Scott Group Ltd is a separate company and, although like MSC it is owned by Mr Scott, it is not the holding company of MSC. Thirdly, Scott Group Pty Ltd was the recipient of royalties prior to the March 2012 royalty agreement and afterwards. Finally, in executing on behalf of “Scott Group”, Mr Scott signed as “Managing Director”. On the other hand, Mr Scott was the owner of MSC and Scott Group Pty Ltd and it is hard to think that the precise Scott entity was material to Bacchus. Furthermore, the royalty agreement related to the CWS invention and the 593 Patent and Scott Group Pty Ltd played no part in those matters. It was not incorporated until 1 June 2006. This circumstance might be taken to suggest that it was acting as MSC’s agent.
9. As to Bacchus’ second argument, the position is complicated by the fact that in September 2013, MSC and Mr Scott were contending that they were solely entitled to the patent because he was the inventor and there had been no assignment to Bacchus. MSC and Mr Scott had licensed the CWS process to Bacchus together with the copyright and confidential information. The licence to use this property was “pursuant to” the March 2012 royalty agreement. MSC and Mr Scott asserted in the letter from their solicitors dated 16 September 2013 that the March 2012 royalty agreement terminated in August 2013. By contrast, in its statement of claim, Neobev draws a distinction between the licence which is said to relate to the copyright and confidential information, and the royalty agreement which is said to relate to the exploitation of the CWS invention and the 593 Patent. The licence agreement is said to relate to the period from 2003 to August 2013. On one view, it is difficult to see how the March 2012 royalty agreement survives a demand that Bacchus cease all production or sale of CWS using the invention.
10. As to Bacchus’ fourth argument, I am disposed to think that even if Neobev overcame the other arguments, this is not a case where the Court would order specific performance. The underlying principle is that the Court may order specific performance where an order for damages is an inadequate remedy (*Hewett v Court* (1982-1983) 149 CLR 639 per Deane J at 665). Categories of contracts such as contracts for the sale of land have been accepted as contracts in respect of which it is appropriate to order specific performance. This contract is not in one of the accepted categories but, at the same time, the categories are not closed. The damages in this case will be difficult to determine because they depend on future production over an extended period and the prospects of recovery seem poor in light of Bacchus’ financial position and the fact that it is in administration. I was not referred to any authority on whether the likely recovery in a particular case may be considered. I am disposed to think not because of the uncertainty attending the consideration (i.e., how does one assess the prospects of recovery and how low do they have to be?). Another consideration which may be relevant is that if Neobev is entitled to be a patentee of the 593 Patent, it will be entitled to withhold its consent to any licence or assignment by Bacchus (s 16(1)(c) of the Patents Act).
11. I turn now to the argument that the provision is vague and uncertain and void for that reason.
12. The evidence before the Court suggests that the March 2012 royalty agreement was prepared by Mr Scott. It is not a precise legal document and there are certainly aspects of the agreement which are unclear. For example, it is not entirely clear whether, in another part of the agreement, selling other processes means a sale transaction or a licence agreement. It is unclear what is meant by “that line” in the provision “Should Bacchus sell the process to another company the royalty on that line would be at 10 cents per litre of finished product” or precisely how the provision is intended to operate.
13. On the face of it, the reference to Bacchus selling to another company is unlikely to refer to Bacchus’ shareholders selling their shares in Bacchus, but it is perhaps a viable construction in view of the alternative of Bacchus changing its name. However, I think the real difficulty with the provision is that there is uncertainty as to what is meant by Bacchus continuing to honour its obligations under the agreement. It is not clear whether that means it should continue to pay the royalty even though the clean wine spirit is produced by a third party purchaser of Bacchus’ business, or whether it must extract an undertaking to pay the royalty from such a purchaser or use reasonable endeavours to do so, or do that and stand in effect as guarantor with respect to the payment of the royalties.
14. Neobev contends that there are commercial reasons for construing the provision in a way that results in a purchaser paying the royalty. Otherwise, Bacchus would be paying royalties on CWS or finished product produced by a third party purchaser of Bacchus’ business with all the practical difficulties which that might entail. While there is some force in that submission, it does not overcome the difficulty that assessed objectively there are a number of constructions of the provision and there is no reason to prefer one over the other. The Court must take into account the exhortation to give meaning to the provision, if possible, and to uphold bargains where possible: *The Council of the Upper Hunter County District v Australian Chilling and Freezing Co Limited* (1967-1968) 118 CLR 429 at 436-437 per Barwick CJ. However, it is not sufficient that a meaning is open if a number of meanings are open and there is no sufficient reason, applying the usual canons of contractual construction, to prefer one over another: *Toyota Motor v Ken Morgan Motors* [1994] 2 VR 106 at 199-200 per JD Phillips J.
15. Neobev also submitted that Mr Hajdinjak admitted in his evidence that the March 2012 royalty agreement applied to a purchaser of Bacchus’ business. However, precisely what he meant by what he said was not explained and in any event it cannot affect the proper construction of the agreement.
16. Neobev is not entitled to an order for specific performance in relation to the March 2012 royalty agreement.

# COPYRIGHT MATERIAL AND CONFIDENTIAL INFORMATION

1. As I have said, Neobev claims that there are 77 documents which contain confidential information owned by it as the assignee from MSC and Mr Scott. Twenty-eight of these documents are also protected by the law of copyright where again Neobev, as the assignee of MSC and Mr Scott, is the copyright owner. Neobev accepts that MSC and Mr Scott granted Bacchus a licence to use the information contained in these documents, but contends that the licence came to an end in August 2013.
2. A number of the documents are undated, but those that are dated show that they were created between June 2003 and the present. The documents are, for the most part, documents prepared by Mr Scott and contain technical data relating to 14 products produced by Bacchus. For example, a number of the documents are recipes for those products.
3. Bacchus accepts that before the assignment MSC was the owner of the copyright in the documents as alleged and the owner of the confidential information in the documents as alleged. It agrees that it had a licence from MSC to use the copyright material and confidential information. The issue between the parties is whether the licence has come to an end. Bacchus claims that not only has the licence to use the copyright material and confidential information not come to an end, but the licence is unconditional, irrevocable and transferrable. Bacchus claims that it is entitled to transfer or assign the rights it has under the licence to a third party as part of the sale of the business of Bacchus and that the right is the right to use the documents and information for the purpose of manufacturing cream liqueur products using the emulsifiers supplied by or on behalf of MSC or Mr Scott.
4. I think that the key issue is whether Bacchus’ right to use the confidential information and copyright material is capable of assignment. There is authority that an insolvency administration of the licensee does not necessarily bring a licence to an end (*Tolhurst v Associated Portland Cement Manufacturers 1900; Associated Portland Cement Manufacturers 1900 v Tolhurst* [1902] 2 KB 660 at 671 per Collins MR). However, there is no suggestion in this case that Bacchus wishes to, or can, continue to use the confidential information and copyright material. The administrators of Bacchus seek to sell the “right” to a third party purchaser.
5. It is important to remember that we are not here concerned with the right of the person who is owed the duty of confidence to assign that right. In fact, Neobev gets its rights from the assignments referred to at the beginning of these reasons. A number of cases to which I was referred were cases which considered whether the person to whom the obligation of confidence was owed could assign his or her right (see for example, *TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444; *Mid-City Skin Cancer and Laser Centre Pty Ltd v Zahedi-Anarak* (2006) 67 NSWLR 569).
6. In this case it is the person who owes the obligation of confidence who seeks to assign the confidential information. There are two difficulties with that or perhaps they are part of the one fundamental difficulty. Contractual burdens or obligations are not assignable: *Pacific Brands Sport and Leisure Pty Ltd and Others v Underworks Pty Ltd* [2006] FCAFC 40; (2006) 149 FCR 395 404-405 [32]. Novation is possible but that requires the consent of the person to whom the duty of confidence is owed and is not relevant here. Bacchus emphasises the *right* to use the information, but one of the features of the confidential information is that it was received by Bacchus in such circumstances as to import a duty of confidence (*Smith Kline & French Laboratories (Aust) Limited and Others v Secretary, Department of Community Services and Health* (1990) 22 FCR 73 at 87 per Gummow J (sitting as a Judge of this Court)). It seems fundamentally inconsistent with that feature to allow assignment by the person who owes the obligation of confidence. That might be possible where there is an express provision allowing assignment (see *Painaway Australia Pty Ltd v JAKL Group Pty Ltd and Others* [2011] NSWSC 205; (2011) 249 FLR 1 at 65-68 [310]-[325] per Ward J), but there is no express provision allowing assignment in this case. There is no basis upon which to imply such a provision. One cannot transfer the right to use without the obligation and the obligation is incapable of assignment.
7. In my opinion, Bacchus’ right or licence to use the confidential information is incapable of assignment. I will not refer to the many cases cited by Bacchus. They either involved a question of whether the owner of confidential information could assign his or her rights or other forms of property where the very right to use was not qualified by an obligation not to disclose.

# conclusion

1. I will adjourn the proceeding to a date to be fixed for consideration of the final orders to be made in light of these reasons. The parties asked me to do that and I think it is an appropriate course in view of the fact that Bacchus is in administration.

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| I certify that the preceding one hundred and forty-three (143) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Besanko. |

Associate:

Dated: 16 January 2014