FEDERAL COURT OF AUSTRALIA

Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 5) [2014] FCA 95

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| Citation: | | Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 5) [2014] FCA 95 |
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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: | | **BESANKO J** |
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| Date of judgment: | | 19 February 2014 |
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| Catchwords: | | **COSTS** – Applicant succeeds on some but not all issues in a proceeding – whether Applicant succeeded on main issues in the proceeding – appropriate reduction in costs orders – further disputes between the parties concerning the property in issue in the proceeding – subsequent proceeding issued in the Supreme Court of Victoria – whether costs determination should be adjourned until subsequent proceedings determined – whether Applicant would ultimately receive any benefit from final orders made – whether proceedings futile – whether Calderbank letter effective – whether Applicant had collateral purpose in bringing proceeding – whether proceeding would have been resolved if Applicant raised amendments to claim earlier – release of security paid into solicitor’s trust account.  **Held:** Respondent to pay 70% of the Applicant and Cross Respondents’ costs, including any reserved costs, but excluding costs subject to prior orders in favour of the Respondent. Security released. |
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| Legislation: | | *Federal Court of Australia Act 1976* (Cth) s 43 |
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| Cases cited: | | *Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3)* [2014] FCA 4  *Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 4)* [2014] FCA 21 |
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| Date of hearing: | 13 February 2014 | | |
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| Place: | Adelaide | | |
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| Division: | GENERAL DIVISION | | |
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| Category: | Catchwords | | |
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| Number of paragraphs: | 20 | | |
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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 | | |
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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 Respondent  MAX SCOTT CONSULTING PTY LTD (ACN 098 170 480)  Second Cross Respondent  MAX SCOTT  Third 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: | 19 february 2014 |
| WHERE MADE: | ADELAIDE |

THE COURT ORDERS THAT:

1. The Respondent pay to the Applicant 70% of the Applicant’s costs of the claim, including any reserved costs, but excluding those costs which are the subject of order 4 of the orders made by the Court on 12 December 2013 and order 3 of the orders made by the Court on 16 December 2013.

2. The Respondent/Cross Claimant pay to the Cross Respondents 70% of the Cross Respondents’ costs of the cross claim, including any reserved costs.

3. The costs payable to the Respondent/Cross Claimant pursuant to order 4 of the orders made by the Court on 12 December 2013 and order 3 of the orders made by the Court on 16 December 2013 be set off against the costs payable to the Applicant/First Cross Respondent pursuant to orders 1 and 2 above and pursuant to order 7 of the orders made by the Court on 16 December 2013.

1. After the expiration of three business days from the date of this order, the Applicant be released from its obligation to provide security for the Respondent’s costs (including its obligations under orders 6 and 7 of the orders made by the Court on 22 October 2013, order 5 of the orders made by the Court on 12 December 2013 and as set out in the transcript of the hearing on 16 December 2013 at page 25, line 26 and following).
2. Liberty to apply on short notice.

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

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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 Respondent  MAX SCOTT CONSULTING PTY LTD (ACN 098 170 480)  Second Cross Respondent  MAX SCOTT  Third Cross Respondent |
| AND: | BACCHUS DISTILLERY PTY LTD (ADMINISTRATORS APPOINTED) (ACN 065 961 711)  Respondent/Cross Claimant |

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| JUDGE: | BESANKO J |
| DATE: | 19 february 2014 |
| PLACE: | ADELAIDE |

**REASONS FOR JUDGMENT**

1. These reasons deal with the costs of a proceeding in this Court in which I delivered reasons for judgment on 16 January 2014 (*Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3)* [2014] FCA 4) and reasons for the final orders made on 4 February 2014 (*Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 4)* [2014] FCA 21). These reasons should be read with those reasons. I have, for example, adopted the same abbreviations in these reasons.
2. The Court’s power to award costs is contained in s 43 of the *Federal Court of Australia Act 1976* (Cth). Section 43(2) provides that costs are in the discretion of the Court, and s 43(3) provides in a non-exhaustive way for the type of orders the Court may make. In the ordinary case, costs follow the event. Where a party has succeeded on some, but not all, issues presented to the Court for its determination, that party’s partial lack of success may lead to an order that the party pay the other side’s costs on those issues in respect of which it has been unsuccessful, or a reduction of the party’s costs. Whether such an approach is appropriate will depend on all of the circumstances of the case.
3. The final orders made on 4 February 2014 were as follows:

**THE COURT DECLARES THAT**:

1. Mr Max Scott is the sole inventor of the invention which is the subject of Australian Standard Patent 2006201593 (“593 Patent”) and Australian Standard Patent Application 2011201999 (“999 Application”).
2. (a) The Applicant/First Cross Respondent (Neobev Pty Ltd (ACN 165 795 746) (“Neobev”)) is, and has since 13 September 2013 been, the beneficial co‑owner of the 593 Patent and the invention which is the subject of that patent; and

(b) The Respondent/Cross Claimant (Bacchus Distillery Pty Ltd (Administrators Appointed) (ACN 065 961 711) (“Bacchus”)) holds the ownership of the 593 Patent, and the invention the subject of that patent, on trust for itself and Neobev as co-owners in equity.

1. The licence with respect to the Confidential Information and Copyright Works defined in the Amended Statement of Claim (“Confidential Information and Copyright Works”) to use the same for the purpose of manufacturing cream liqueur products using the emulsifiers supplied by or on behalf of Max Scott Consulting Pty Ltd and Mr Max Scott was not terminated by reason of the fact that Bacchus was placed into administration on 9 September 2013.

**THE COURT ORDERS THAT**:

1. The Commissioner of Patents rectify the Register of Patents in relation to the 593 Patent so as to name Mr Max Scott as the sole inventor of the 593 Patent.
2. A copy of these orders be served on the Commissioner of Patents within fourteen days of this order.
3. Bacchus, whether by itself, its officers, employees or agents or otherwise howsoever, be restrained from promoting for sale, selling or otherwise disposing of the Confidential Information or Copyright Works without Neobev’s consent.
4. All applications for costs be adjourned to Thursday, 13 February 2014 at 10am (Adelaide time) for hearing.
5. These declarations and orders can be linked to the main issues in the case. The first declaration and the first and second orders relate to the issue of inventorship (i.e., the identity of the inventor or inventors), which issue was decided in favour of Neobev. The second declaration relates to the issue of ownership of the invention and the 593 Patent and, as to that issue, Neobev was successful in establishing joint beneficial ownership, but unsuccessful in its attempt to have itself recorded as a co‑owner on the Register of Patents. A material consideration in terms of the costs of the issue of ownership of the invention and the 593 Patent is that, up until shortly prior to trial, Neobev claimed in its Originating Application and Statement of Claim that it was entitled to sole ownership of the invention and the 593 Patent. The third declaration and third order may be considered together. They relate to the Confidential Information and Copyright Works and the two issues of whether the licence to use that information and those works had come to an end by reason of Bacchus being placed into administration, with respect to which issue Neobev was unsuccessful and Bacchus was successful, and the assignability of the licence, with respect to which issue Neobev was successful and Bacchus was unsuccessful. There was one further issue in the proceeding that is not the subject of any declarations or orders and that concerned Neobev’s claim for specific performance of the Royalty Agreement. That issue is dealt with in *Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3)* at [119]‑[135]. It was decided against Neobev and there were no declarations or orders made with respect to it.
6. At the outset, it is necessary to consider a submission made by Bacchus that the question of costs in this proceeding should be adjourned until after the determination of an application issued in the Supreme Court of Victoria by Bacchus’ administrators the day after I made final orders in this proceeding. The orders I made on 4 February 2014 have not resolved all of the issues between the parties concerning the invention and the 593 Patent. The outstanding issues, in general terms, are whether the administrators are able to sell the invention and the 593 Patent and, if so, the proper application of the proceeds of sale. Those issues are the subject of the proceeding in the Supreme Court of Victoria. I identified some of the matters relevant to the issues in *Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 4)* [8]‑[10]. Although neither party asserts that the other party is precluded by some form of estoppel arising from its conduct of the proceeding before me from raising those issues in the proceeding in the Supreme Court of Victoria, Bacchus asserts that, should it succeed in its application in the Supreme Court of Victoria, then from Neobev’s point of view, and having regard to the financial condition of the company, the proceeding in this Court will have proved utterly futile. Bacchus submits that, if that proves to be the case, then it should receive its costs of this proceeding or, at the very least, Neobev should not get its costs. It is for this reason that it submits that I should adjourn the question of costs until the result of the proceeding in the Supreme Court of Victoria is known.
7. I do not accept this submission. The ownership of the invention and the 593 Patent was the main issue in the proceeding before me. There were two arguments, one relating to a claim of joint beneficial ownership, and the other relating to whether Neobev’s ownership interest should be recorded on the Register of Patents. Those issues were contested and I determined them. I see no reason why I should not make an order for costs with respect to the issues the parties put before the Court.
8. Independently of this reason, I have great difficulty in seeing how Bacchus could establish that the proceeding before me was futile such that it should never have been brought. For example, I note that by letter dated 13 December 2013, which was the Friday before the trial commenced on the following Monday, Bacchus’ solicitors made an offer to Neobev through its solicitors in the following terms:

17. Having regard to all the matters set out above, and with a view to resolving the Proceeding without further delay and costs, our clients are willing to settle the Proceeding on the following basis:

1. our client will pay your client 10% of the net surplus proceeds of the sale of the Company’s assets, being the funds available to our client after:
2. payment of the administrators’, deed administrators’ and liquidators’ remuneration, costs and expenses (as applicable) including the costs of the Proceeding;
3. payment of the claims of creditors who hold a valid and enforceable security interest over the Company’s assets that the subject of any sale;
4. the parties file consent orders dismissing the Applicant’s claim and entry into judgment in from of the orders sought in the in the cross-claim;
5. the parties will be at liberty to enforce any costs orders already made in the Proceeding, but will otherwise bear their own costs.

18. If you client accepts this offer by **6:00pm today, Friday 13 December 2013**, I am instructed that our client will limit their claim under all present costs orders to $140,000 on taxation.

19. This offer is otherwise open for your client’s acceptance until **12:00pm, Sunday 15 December 2013**, after which time it will automatically lapse.

1. Neobev’s solicitors responded on the same day as follows:
2. We refer to your without prejudice letter of today and our discussion this evening.
3. Your letter was received by us at 3:38pm on Friday, 13 December 2013. The trial is listed to commence at 10.15am on Monday, 16 December 2013. In order to accept part of the offer made in your letter, our clients were required to accept that offer by 6.00pm this evening. On its face, this period for the consideration of an offer is unreasonable, particularly having regard to the fact that this is the first occasion on which your clients have made any offer of settlement.
4. We do not agree with your assessment of our clients’ case. We have provided written submissions setting out the merits of that case and will not repeat those matters in this letter.
5. As we indicated this evening, the offer to pay “10% of net surplus for proceeds of the sale of the Company’s assets being the funds available” after payment of the expenses set out in paragraph 17(a), is unclear in the absence of any information about the likely sale price of the Company’s assets or the quantum of those expenses. We cannot assess the value of that offer and advise our clients accordingly.
6. The suggestion that your clients’ costs thrown away by our client’s amendments are likely to exceed $140,000 is impossible for us to test at this stage. We can, however, say that we regard that figure as surprisingly high.
7. In the circumstances, there is insufficient time and information for us to properly advise our clients on the offer and its implications. Further, there is insufficient information to enable a reasonable assessment of the scope of the offer to be made in the time available.
8. You are invited to provide further information on these matters to enable us to properly assess the reasonableness or otherwise of your clients’ proposal. In the alternative, our clients remain willing to discuss with you settlement proposals which are more reasonably quantifiable.
9. This letter is not an effective Calderbank letter because what was being offered was vague and uncertain, and I do not think that it was unreasonable for Neobev to seek clarification. However, and this is the important point, presumably Bacchus considered that it was making an offer to Neobev which had some commercial value.
10. For these reasons, I do not think it either necessary or appropriate to await the outcome of the proceeding in the Supreme Court of Victoria.
11. Bacchus put two general arguments which it contended were relevant to the question of costs.
12. First, it submitted (as it has on previous occasions) that Neobev has had a collateral purpose in bringing and maintaining this proceeding and that that purpose is to thwart a competitive sale process by the administrators of Bacchus. I fail to see how that is so. It asserted a legal right (including in that expression a claim for joint beneficial ownership), which was denied by Bacchus. Neobev succeeded with respect to that issue.
13. Secondly, Bacchus suggested through one of its administrators, Mr Secatore, that, if the claim for joint beneficial ownership had been raised earlier, then the claim may have been resolved. I do not think there is a sufficient basis in the objective facts for me to place any weight on that opinion.
14. The fact that until shortly before trial Neobev asserted a right to sole ownership of the invention and the 593 Patent is significant. However, in terms of costs, I accept Neobev’s submission that it is a circumstance covered by an existing costs order in favour of Bacchus, being order 4 made on 12 December 2013.
15. In terms of the outcome of the proceeding before me, Neobev succeeded on a number of issues and Bacchus succeeded on other issues. Neobev succeeded on the main issue in the proceeding although, as I have said, I must take into account the fact that it did not succeed in its claim to be recorded as a co‑owner on the Register of Patents. Nevertheless, I do not think this is a case where honours were about even and where an order that there be no order as to costs might be appropriate. Neobev was, to my mind, substantially successful.
16. Counsel for Bacchus submitted that at one point before trial he had indicated that the administrators of Bacchus were not really interested in the issue of inventorship. I do not think that that is a matter to take into account. The fact is that it was an issue at trial, which was contested, and that Neobev was successful on that issue.
17. As to the licence to use the Confidential Information and Copyright Works, Bacchus succeeded on the issue of termination but I do not think that that justifies a separate order for costs. When compared with the issue of assignability, it was a secondary issue.
18. As to Neobev’s claim for specific performance of the Royalty Agreement, that claim was introduced by a late amendment and a costs order in favour of Bacchus attended its introduction, being order 3 made on 16 December 2013. Bacchus was successful on the issue and, although that fact should be reflected in the orders I make as to costs, it does not, to my mind, call for a separate order for costs. I have reached that conclusion having regard to the overwhelming significance of the ownership issue and the overlap in terms of evidence between that issue and the claim for specific performance of the Royalty Agreement.
19. The two existing costs orders in favour of Bacchus to which I have referred will stand. It seems to me that the matters in Bacchus’ favour as outlined above should be reflected in a reduction in the costs payable to Neobev. I think a reduction of 30% is appropriate to reflect those matters. Subject to two existing costs orders in favour of it (Bacchus), Bacchus should pay 70% of Neobev’s costs of the proceeding assessed on a party and party basis. I think that the order with respect to the claim and the cross claim should be the same. The cross claim did not add to, or even expand, the issues raised by Neobev’s claim and Bacchus’ defence to it.
20. As a result of the costs order I will make, there will be, as I understand it, a balance in favour of Neobev. In those circumstances, it is appropriate that Neobev’s solicitors be released from their undertaking with respect to monies held in their trust account. I will order that they be released from that undertaking after three business days and I will give liberty to apply.

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| I certify that the preceding twenty (20) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Besanko. |

Associate:

Dated: 19 February 2014