

# SUPREME COURT OF QUEENSLAND

CITATION: *Harbour Capital Asset Management Pty Ltd & Ors v Airphysio Pty Ltd & Ors* [2024] QSC 33

PARTIES: **HARBOUR CAPITAL ASSET MANAGEMENT PTY LTD ACN 611 548 004**  
(first plaintiff)  
**ADRIAN BANDUCCI**  
(second plaintiff)  
**GUY BANDUCCI**  
(third plaintiff)  
**v**  
**AIRPHYSIO PTY LTD ACN 607 523 697**  
(first defendant)  
**AIRPHYSIO IP HOLDING PTY LTD ACN 612 558 504**  
(second defendant)  
**BETTER BREATHING DEVICES PTY LTD ACN 653 856 663**  
(third defendant)

FILE NO/S: BS 6798 of 2023

DIVISION: Trial Division

PROCEEDING: Claim

ORIGINATING COURT: Supreme Court of Queensland at Brisbane

DELIVERED ON: 14 March 2024

DELIVERED AT: Brisbane

HEARING DATE: 26 October 2023

JUDGE: Bradley J

ORDER: **THE COURT DIRECTS THAT:**

- 1. The parties confer and submit a draft order reflecting the findings in the reasons published today and dealing with the further conduct of the proceeding.**
- 2. If the parties are unable to agree on the terms of a draft order within 21 days, then each party is to submit a draft order reflecting the findings in the reasons published today and dealing with the further conduct of the proceeding.**

CATCHWORDS: INTERPRETATION – GENERAL RULES OF CONSTRUCTION OF INSTRUMENTS – COMMERCIAL AND BUSINESS TRANSACTIONS – GENERALLY – where the second defendant owns intellectual property associated with a handheld device with the brand name

“AirPhysio” (the “product”) – where the second defendant granted the first defendant an exclusive licence to use and exploit intellectual property used in the business of marketing and distributing the product (the “licence”) – where the first defendant agreed to give the plaintiffs written notice of an intention to “sell, transfer or assign” all or any part of the right to manufacture, distribute or manufacture and distribute the product – where the first and second defendants agreed to amend the licence so that the first defendant’s right to market and distribute the product became non-exclusive (the “amendment”) – whether the amendment had the effect of selling, transferring or assigning all or any part of the right to manufacture, distribute or manufacture and distribute the product

INTERPRETATION – GENERAL RULES OF CONSTRUCTION OF INSTRUMENTS – COMMERCIAL AND BUSINESS TRANSACTIONS – GENERALLY – where, by the licence, the first and second defendants agreed to give the plaintiffs notice of an intention to “sell, transfer or assign” all or any part of the business of the development and sale of the product which exploits the intellectual property in the product – where the first defendant granted the third defendant a non-exclusive licence to use intellectual property associated with the product in order to manufacture, market and distribute the product (the “third party licence”) – whether the third party licence had the effect of selling, transferring or assigning all or any part of the business of the development and sale of the product which exploits the intellectual property in the product

INTELLECTUAL PROPERTY – ASSIGNMENTS, LICENCES AND ROYALTIES – GENERALLY – where the first defendant and the first and second defendants agreed to give the plaintiffs notice of an intention to “sell, transfer or assign” their rights in relation to the product – whether those words have the same technical legal meaning as they do in conveyancing or personal property practice

*Coles Myer Ltd v Commissioner of State Revenue (Vic)* [1998] 4 VR 728, considered

*Freedom Willetton Pty Ltd v Commissioner of State Revenue (WA)* [2021] WASCA 38, cited

*Mount Bruce Mining Pty Ltd v Wright Prospecting Pty Ltd* (2015) 256 CLR 104, cited

COUNSEL: J Hastie for the plaintiffs  
B W J Kidston for the defendants

SOLICITORS: Macpherson Kelley for the plaintiffs  
Ellem Warren Napa for the defendants

- [1] The parties are in dispute about their respective rights relating to a handheld device with the brand name “AirPhysio” (the **product**).
- [2] On 28 August 2023, by consent, the Court directed four questions be heard and determined separately from and before all the other issues in the proceeding (the **separate questions**).<sup>1</sup> The separate questions appear at paragraph [51] below.
- [3] At a hearing on 26 October 2023, the parties adduced evidence and tendered an agreed statement of facts and an agreed chronology. They read written submissions and made oral submissions. These reasons deal with the answers that should be given to the separate questions.

### **The parties’ respective rights**

- [4] It is common ground that the second defendant (**AIPH**) owns the intellectual property associated with the product, including certain registered designs and trademarks. Each other party to the proceeding has or had various rights in relation to the product arising under written instruments. These are summarised below.

### ***The Binding Heads of Agreement and Essential Terms***

- [5] In 2016, the plaintiffs (**HCAM**), the first defendant (**AP**), AIPH, Richard John Nash, Paul Joseph O’Brien, Wayne Neville Daley, and Stephen Parry Owen were in dispute about a possible sale of shares in AP and AIPH by the individuals to HCAM, and an alleged right of first refusal in respect of the sale of those shares.
- [6] On or about 14 December 2016, following a mediation, HCAM, AIPH, AP, Mr Nash,<sup>2</sup> Mr O’Brien, Mr Daley and Mr Owen agreed to settle and compromise all claims, past, present, and future, between them on terms set out in a written agreement entitled “Binding Heads of Agreement and Essential Terms” (the **HOA**). Each of AIPH and AP executed the HOA by its directors Mr O’Brien and Mr Daley in accordance with section 127 of the *Corporations Act 2001* (Cth).
- [7] The HOA relevantly included the following terms:

“1.3 AP Commission to HCAM (or nominee) – AP agrees to pay HCAM or nominee AUD\$3.00 (+GST, if applicable) per Product (or future developed version of the Product) sold in perpetuity as a commission. This commission will be accounted for, and payable on a calendar monthly basis for the Products that AP has received payment for in full (i.e. not upon receipt of merely a deposit). AP agrees to report to HCAM in respect of commissions on a monthly basis. AP

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<sup>1</sup> The direction was made pursuant to r 483 of the *Uniform Civil Procedure Rules 1999* (Qld).

<sup>2</sup> Mr Nash agreed in both his personal capacity and as trustee for the Nash Family Trust (ABN 31 291 778 904).

agrees to permit HCAM (or its accounting advisors) confidential access to AP financial records as reasonably necessary to be reasonably satisfied as to the accuracy of AP reporting. ...

1.4 First Right of Refusal – The parties agree that:

1.4.1 AP and AIPH will provide a first right of refusal in respect of any proposed transfer of intellectual property rights in the Product and if AP seeks to deal [with] the rights to manufacture and distribute the Product then it must ensure its obligations to HCAM to pay commission are recognised;

...

2.4 Co-operation – The parties will do all such things, and execute all such documents, as may be needed or desirable to give effect to the intent expressed in this agreement.

...

2.6 Details / Mechanics – This binding heads of agreement and essential terms sets out the basis upon which the parties have settled the proceeding and all other issues in dispute. [One of the individuals] will prepare, and the parties will execute and exchange [an] agreement of settlement and release more fully setting out the settlement ..., however, the parties acknowledge that this document is binding upon them.”

### ***The Share Sale and Royalty Deed***

- [8] On 10 February 2017, AP, AIPH, HCAM and the individuals executed a deed called the “Share Sale and Royalty Deed” (the **Deed**).<sup>3</sup> Each of AIPH and AP executed the Deed by its directors Mr O’Brien and Mr Owen in accordance with s 127 of the *Corporations Act*.
- [9] In the recitals to the Deed, the parties referred to the requirement in the HOA that the parties “execute and exchange an agreement of settlement and release more fully setting out the terms and conditions of the settlement.” The parties annexed a copy of the HOA to the Deed.
- [10] The clauses in the Deed relevant to the separate questions may be summarised as follows:
- (a) By a covenant in cl 5.1 of the Deed (the **cl 5.1 covenant**), AP agreed to pay to HCAM, or HCAM’s nominee, a royalty of \$3.00 in perpetuity for each

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<sup>3</sup> Some operative provisions of the Deed are set out in Annexure A.

product that AP sells, whether in Australia or globally (the **royalty**). It is common ground that the effect of the Deed was that HCAM became entitled to receive the royalty instead of receiving shares in AIPH and AP. AP has paid HCAM the royalty since execution of the Deed, however, payments began to reduce towards the end of 2021.

- (b) AP gave other covenants in favour of HCAM (in clauses 5.2 to 5.4 of the Deed) about monthly payment and reporting of royalty payments, keeping and maintaining accurate records (including keeping and maintaining books of account and trading and financial records for at least six years) and a right to inspect those records.
- (c) By a covenant in cl 6.1 of the Deed (the **cl 6.1 covenant**), AP and AIPH bound themselves to give HCAM a written notice (an **IPR Transfer Notice**) of an intention to sell, transfer or assign all or any part of the business of the development and sale of the product which exploits the intellectual property and proprietary rights (whether registered or unregistered) in or to the product, including (relevantly) business names, trademarks, patents, patent applications, drawings, discoveries, inventions, improvements, trade secrets, technical data, formulae, computer programs, data bases, know-how, logos, designs, design rights, copyright and similar industrial or intellectual property rights (collectively the **Product IPR**). AIPH and AP's intended transaction is called the **Transfer of IPR**.
- (d) By cl 6.2 of the Deed, it was agreed that:
  - (i) an IPR Transfer Notice would be regarded as an irrevocable offer by AIPH and AP to transfer the Product IPR to HCAM;
  - (ii) AIPH and AP must specify the details of the Transfer of IPR, including the price at which AIPH and AP were willing to give effect to the Transfer of IPR (the **IPR Transfer Price**), in the IPR Transfer Notice;
  - (iii) within 30 days of receipt of the IPR Transfer Notice, HCAM could accept the offer or enter into negotiations with AIPH and AP in relation to the IPR Transfer Price or other terms, provided that HCAM is not offered any less favourable prices and terms than AIPH and AP made to any person other than (relevantly) AP, AIPH or HCAM (such a person being a **Third Party**);
  - (iv) if HCAM rejected the offer AIPH and AP made by the IPR Transfer Notice and did not wish to enter into negotiations with AIPH in relation to the IPR Transfer Price or other terms, or if, after 30 days from HCAM's receipt of the IPR Transfer Notice from AIPH and AP, HCAM did not accept the offer, then AIPH and AP could give effect to the Transfer of IPR to a Third Party, provided that:
    - (A) the Transfer of IPR was for the IPR Transfer Price;

- (B) HCAM had previously approved of the Third Party;
  - (C) the Third Party entered into a royalty deed with HCAM; and
  - (D) AIPH and AP did all things necessary to ensure the Third Party would carry out all of the obligations under the Deed and the HOA as if the Third Party were a party to the Deed and the HOA.
- (e) By a covenant in cl 6.3 of the Deed (the **cl 6.3 covenant**), AP bound itself to give HCAM written notice (a **Product Transfer Notice**) of an intention to sell, transfer or assign AP's right to manufacture or distribute or manufacture and distribute the product (a **Product Transfer**).
- (f) By cl 6.4 of the Deed, it was agreed that:
- (i) a Product Transfer Notice would be regarded as an irrevocable offer by AP to transfer to HCAM the right to manufacture or distribute or manufacture and distribute the product (as the case may be according to the nature of the Product Transfer);
  - (ii) AP must specify the details of the Product Transfer, including the price at which AP was willing to give effect to the Product Transfer (the **Product Transfer Price**), in the Product Transfer Notice;
  - (iii) within 30 days of receipt of the Product Transfer Notice, HCAM could accept the offer or enter into negotiations with AP in relation to the Product Transfer Price or other terms, provided that HCAM is not offered any less favourable prices and terms than AP made to any Third Party;
  - (iv) if HCAM rejected the offer AP made by the Product Transfer Notice and did not wish to enter into negotiations with AP in relation to the Product Transfer Price or other terms, or if, after 30 days from HCAM's receipt of the Product Transfer Notice from AP, HCAM did not accept the offer, then AP could give effect to the Product Transfer to a Third Party, provided that:
    - (A) the Product Transfer was for the Product Transfer Price;
    - (B) HCAM had previously approved of the Third Party;
    - (C) the Third Party entered into a royalty deed with HCAM; and
    - (D) AP did all things necessary to ensure the Third Party would carry out all of the obligations under the Deed and the HOA as if the Third Party were a party to the Deed and the HOA.

- [11] By cl 9.11 of the Deed, the parties agreed that each of them must do, at its own expense, everything reasonably necessary to give full effect to the Deed and any transactions contemplated by it.

***The AP Licence Agreement***

- [12] It is common ground that when the HOA and the Deed were made, AIPH was the owner of the relevant intellectual property. It is also agreed that there was some arrangement in place at that time whereby AIPH was permitting AP to use the intellectual property and, using that intellectual property, AP was conducting a business manufacturing and selling the product to customers. As Mr Kidston put it, AIPH held the intellectual property and did not trade commercially other than to license that intellectual property to others to use; while AP conducted the business of manufacturing and distributing the product as authorised and licensed by AIPH.
- [13] From about June 2016, the individuals who were the directors of the corporate parties knew that a formal agreement would be made between AIPH and AP by which AIPH would license AP “to use and exploit the intellectual property in connection with [AP's] operation and conduct of the business”.
- [14] On 3 March 2017, AIPH and AP executed a written agreement entitled “AirPhysio Pty Ltd Licence to Use Intellectual Property” (the **AP Licence Agreement**). Each of AIPH and AP executed the AP Licence Agreement by its directors Mr Owen and Mr O’Brien in accordance with s 127 of the *Corporations Act*.
- [15] By the AP Licence Agreement, AIPH and AP recited that:
- (a) AIPH is or would be the owner of the intellectual property associated with the product that would be used in the Business;
  - (b) AP had requested permission to use that intellectual property in connection with the conduct of the Business; and
  - (c) AIPH had agreed to grant AP permission to use the intellectual property on the terms and conditions set out in the AP Licence Agreement.
- [16] By the operative provisions of the AP Licence Agreement., AIPH granted AP the rights to use and exploit the “Intellectual Property”, relevantly including the name “Airphysio” (the **name**), three registered designs (the **patents**), any trademarks using the name or identifying the product, and,

“common law and registered trademarks, patents, copyrighted material, logos, designs, documentation, insignias, emblems, know-how, procedures, manuals, training methods and programs, marketing information, client lists and other confidential information, computer software and all other material however embodied that will be used in the Business.”

- [17] In the AP Licence Agreement, AIPH and AP agreed that the “Business” meant the business of marketing and distributing (relevantly) the product from time to time, “including but not limited to entering into distribution agreements with distributors to on-sell” the product in designated territories.
- [18] By the AP Licence Agreement, AIPH covenanted that it would not grant a licence “to any other person to use the granted these rights to AP exclusively. AIPH covenanted that “it will not grant a licence to any other person” to use the intellectual property referred to in paragraph [16] above “as long as this Agreement remains current and in force.”

### ***The AP Licence Amendment***

- [19] On 25 October 2021 AP and AIPH entered into a written agreement entitled “Licence Agreement Amendment” (the **AP Licence Amendment**). Each of AP and AIPH executed the AP Licence Amendment by its directors Mr Owen and Mr O’Brien in accordance with s 127 of the *Corporations Act*.
- [20] By the AP Licence Amendment, AIPH and AP agreed to amend the AP Licence Agreement so that AP’s exclusive rights to use and exploit the identified intellectual property rights in the business of marketing and distributing the product became non-exclusive rights.

### ***The BBD Licence Agreement***

- [21] The third defendant (**BBD**) was incorporated in September 2021. It was controlled by the same individuals who control AP and AIPH.
- [22] On 4 November 2021, AIPH and BBD entered into a written agreement entitled “Licence Agreement” (the **BBD Licence Agreement**).<sup>4</sup> AIPH executed the BBD Licence Agreement by its authorised representative Mr Owen. BBD executed the BBD Licence Agreement by its authorised representative Mr O’Brien.
- [23] By the BBD Licence Agreement, AIPH did two things.
- (a) First, AIPH authorised BBD to conduct the business of manufacturing, marketing and distributing the product. This included, but was not limited to, authorisation to enter into manufacturing, marketing and/or distribution agreements with others which relate to the product (the **authorised business**). This authorisation was not limited to any territory. BBD could conduct the authorised business anywhere in the world.
  - (b) Second, AIPH agreed to license to BBD on a non-exclusive basis the name, the patents, any trademark owned by AIPH (whether currently or in future, using the name or identifying the product), and any common law and registered trademarks, patents, copyrighted material, logos, designs,

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<sup>4</sup> Some operative provisions of the BBD Licence Agreement are set out in Annexure B.



documentation, insignias, emblems, know-how, procedures, manuals, training methods and programs, marketing information, client lists and other confidential information, computer software and all other material however embodied, provided by AIPH for use in the authorised business.

- [24] AIPH gave BBD the authorisation and the licence for an initial term of three years, but each was otherwise evergreen, being terminable on six months' notice or on a failure by BBD to remedy a breach notified by AIPH.

### **Consideration of the facts and the submissions**

- [25] It is common ground that AP did not give HCAM a Product Transfer Notice before agreeing to the AP Licence Amendment. Nor did AIPH and AP give HCAM an IPR Transfer Notice before executing the BBD Licence Agreement. The parties are at odds about whether the failure to give both or either notice was a breach of the Deed.
- [26] Each of the HOA, Deed, AP Licence Agreement, AP Licence Amendment and BBD Licence Agreement is a commercial agreement, executed by commercial parties. The now conventional principles of construction apply.<sup>5</sup> Each instrument is to be construed as a whole. Its meaning is determined objectively by reference to the text, context, and purpose. Its terms mean what a reasonable businessperson would have understood them to mean, having regard to the text, context and purpose of the instrument. It must be construed to avoid making commercial nonsense or creating commercial inconvenience. It is construed practically, to give better effect to its purpose. It is inappropriate to adopt a narrow or pedantic approach to its construction.<sup>6</sup>

### ***The AP Licence Amendment***

- [27] AP, AIPH and BBD submitted that AP was not required to give HCAM a Product Transfer Notice before agreeing to or intending to amend the AP Licence Amendment because AP did not sell, transfer or assign its right to manufacture or distribute the product by executing the AP Licence Amendment.
- [28] Before executing the AP Licence Amendment, AP could use its exclusive right to use the relevant intellectual property in its business including by "entering into distribution agreements with distributors to on-sell" the product in designated territories. Until AP executed the AP Licence Amendment, AIPH did not have the right to licence other persons to manufacture or distribute the product. It follows that rights held by AP under the AP Licence Agreement were given up by AP and returned to AIPH by the AP Licence Amendment.

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<sup>5</sup> *Mount Bruce Mining Pty Ltd v Wright Prospecting Pty Ltd* (2015) 256 CLR 104, 116-117 [46]-[51] (French CJ, Nettle and Gordon JJ).

<sup>6</sup> This summary is drawn from that in *Freedom Willetton Pty Ltd v Commissioner of State Revenue (WA)* [2021] WASCA 38, [84] (Buss P, Murphy and Vaughan JJA).

- [29] I reject the submissions put for AP, AIPH and BBD that the words “sell, transfer, assign” in clauses 6.1 and 6.3 of the Deed should be construed as having the technical legal meaning each word has in real property conveyancing or personal property practice. In clauses 6.3 and cl 6.4 of the Deed, the parties expressly contemplated a sale, transfer or assignment of intellectual property rights that AP held under a licence from AIPH. So, I reject Mr Kidston’s contention that the grant of a licence or lease to use intellectual property could not be a transfer within the meaning of the Deed, because it is only a “temporary use” and not a “permanent alienation” of AP’s rights. In any event, AP did not license or lease the exclusive rights back to AIPH for some period. Nor did not AP retain any right to recover them. AP relinquished its exclusive rights to AIPH permanently.
- [30] In *Coles Myer Ltd v Commissioner of State Revenue (Vic)*,<sup>7</sup> the Victorian Court of Appeal considered whether a company “buying back” its own shares was a “transfer” within the meaning of the relevant legislation. Ormiston JA observed:
- “Although the word ‘transfer’ is not a term of art and is a word of wide connotation, to my way of thinking it is the passing of rights to another, so as to vest them in that other person, which is essential to a transfer, properly understood. It is not a mere disposition, a ridding oneself of the right or interest, it is the vesting in the transferee of that right or interest, precisely or substantially, which is necessary to effect a transfer, as ordinarily understood in the law.”<sup>8</sup>
- [31] His Honour concluded that “the real nature and substance of the instrument” determined whether or not it was a transfer; what it “effectuates”, not the “label on the instrument”.<sup>9</sup>
- [32] Given the text of the Deed, the context, and the purpose of the transaction, including the agreement in the HOA that AP was to pay HCAM the royalty in perpetuity, the construction proposed by AP, AIPH and BBD is too narrow and pedantic. It would mean the parties intended to allow AP to give AIPH any or all of its rights under the AP Licence Agreement, without first offering HCAM a chance to acquire those rights, and AIPH would then be able to licence and authorise another person to use the relevant intellectual property to manufacture or distribute the product, free from the obligation to pay HCAM a royalty. This construction would render the Deed, as a whole, commercial nonsense.
- [33] Having regard to the Deed as a whole, its text, context and purpose, a reasonable businessperson in the position of the parties to the Deed would have understood the words “if AP wishes to ... transfer, [or] assign ... its right to manufacture or distribute the Product or both” in the cl 6.3 covenant to include a circumstance where AP wished to give up the exclusive right to use the relevant intellectual

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<sup>7</sup> [1998] 4 VR 728.

<sup>8</sup> Ibid at 740.

<sup>9</sup> Ibid at 747.

property in its business and thereby permit AIPH to authorise and license others to use those rights. In this way, they would understand AP giving up its exclusive right to AIPH as a transfer or assignment by AP of its exclusive right to AIPH. This construction of the cl 6.3 covenant is practical. It gives effect to the purpose of the Deed, which was to formalise the settlement of the dispute by providing HCAM with a perpetual royalty on sales of the product by the only entity licensed to do so, and a right of first refusal in the event that AP wished to sell, transfer or assign its exclusive right to manufacture or distribute the product.

- [34] It follows that AP was bound by the cl 6.3 covenant to give HCAM a Product Transfer Notice before agreeing to the AP Licence Amendment. AP's failure to do so was a breach of that covenant.

### ***The BBD Licence Agreement***

- [35] AP, AIPH and BBD submitted that AIPH and AP were not required to give HCAM an IPR Transfer Notice before executing, or intending to execute, the BBD Licence Agreement because by that agreement they did not sell, transfer or assign all or any part of the business carried on by AIPH and AP.

- [36] By clauses 1.1 and 6.1 of the Deed, the parties to that instrument described the business carried on by AP and AIPH as "the development and sale" of the product "which exploits the Intellectual Property Rights in or to" the product.

- [37] In the AP Licence Amendment, AP and AIPH expressed their purpose in these words:

"The purpose of the amendment is to allow for the Business to be carried out globally, whereby other parties may use the intellectual property to operate and conduct the Business as per the definition in the agreement."<sup>10</sup>

- [38] In the AP Licence Agreement (and so in the AP Licence Amendment), AIPH and AP defined the "Business" as the business AP conducted and in connection with which it was able to use and exploit the relevant intellectual property. It was a business of marketing and distributing the product, including entering into distribution agreements in designated territories. AP's business, so defined, was a business which exploited the relevant intellectual property rights, and so was within the scope of the business the subject of the cl 6.1 covenant.

- [39] By cl 1.1 of the BBD Licence Agreement, AIPH authorised BBD to carry on:

"the business of manufacturing, marketing and distributing the [product] including, but not limited to, entering into manufacturing,

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<sup>10</sup> Note typographical errors have been omitted.

marketing and/or distribution agreements with others relating to the [product] [worldwide].”

- [40] So, the business AIPH authorised BBD to carry on was also a business which exploits the relevant intellectual property.
- [41] From AIPH’s conduct in executing the AP Licence Amendment and the BBD Licence Agreement within a period of less than two weeks, and the common directors of AIPH, AP, and BBD, I infer that AIPH considered itself able to execute the BBD Licence Agreement only because AIPH had agreed with AP (by the AP Licence Amendment) to amend the AP Licence Agreement to render it no longer exclusive. I also infer, from the same evidence, that AIPH sought the AP Licence Amendment for the purpose of enabling AIPH to enter into the BBD Licence Agreement or a similar agreement which would give BBD the relevant authorisation and licence to conduct the authorised business.
- [42] No benefit accrued to AP from the AP Licence Amendment. The consequence of AP agreeing to the AP Licence Amendment was that AP’s licence to use and exploit the relevant intellectual property was made less valuable.
- [43] In the circumstances, I infer from AP’s conduct in executing the AP Licence Amendment and the common directorships that AP agreed to execute that instrument to enable AIPH to grant to another person or persons, including BBD, the authority to conduct the business of manufacturing or distributing the product, to enter into distribution agreements with distributors to on-sell the product, and to grant such a person or persons a non-exclusive licence to use the relevant intellectual property associated with the product in the authorised business. In other words, AP returned the relevant rights to AIPH that AIPH would then confer on another person such as BBD.
- [44] To effect that purpose, by the AP Licence Amendment, AP released AIPH from its binding grant of exclusive rights and accepted from AIPH a non-exclusive licence.
- [45] The obligation to give HCAM an IPR Transfer Notice is not confined to a wish by AP to sell, transfer or assign all or any part of the relevant business. It expressly includes a wish by AIPH to do so. Nor is the notice required only where the part that is the subject of the wish is part of the business owned or conducted by AP. It expressly contemplates a notice being required when it is part of a business carried on by AIPH (or by both AP and AIPH).
- [46] A business of the kind contemplated by the parties to the Deed would likely be comprised of chattels (plant, equipment, stock), the right to use the relevant intellectual property, and goodwill. It is a business that could not be carried on without a licence to use the intellectual property in the business.

- [47] A reasonable businessperson in the position of the parties to the Deed would have understood the words “if AP and AIPH wish to sell, transfer, assign ... all or any part of the Business, which exploits the Intellectual Property Rights in or to the Product” as including a desire by AP and AIPH (or either of them) to authorise BBD to carry on the business of manufacturing and distributing the product, including entering into distribution agreements with distributors to on-sell the product anywhere in the world. This is because that was part of the business AIPH had authorised AP to carry on and in which AIPH had licensed AP to use the relevant intellectual property rights.
- [48] Once the desire was put into effect, by AP and AIPH executing the AP Licence Amendment and AIPH and BBD executing the BBD Licence Agreement, part of the intellectual property and part of the goodwill formerly comprising AP’s business would become the property of BBD. A reasonable businessperson would have understood a transfer or assignment by AP and AIPH to BBD of part of the business that exploits the relevant intellectual property rights (in cl 6.1 of the Deed) as including a transaction effected by the BBD Licence Agreement by which some part of the intellectual property rights and goodwill comprised in the business of AP was transferred to BBD.
- [49] AP, AIPH and BBD accept that the parties included cl 6.1 in the Deed “to provide some protection to HCAM’s ongoing right to receive the royalty”. The clause would have no effective protective function if it were construed so that it did not operate when AP and AIPH wished to pass rights held exclusively by AP to a new corporate vehicle.
- [50] It follows that AP and AIPH were bound by the cl 6.1 covenant to give HCAM an IPR Transfer Notice before executing the BBD Licence Agreement. The failure of AP and AIPH to do so was a breach of the cl 6.1 covenant.

#### **Answers to the separate questions**

- [51] For the reasons set out above, the separate questions should be answered in this manner:

***Question 1: Did entry into the BBD Licence Agreement breach clause 6.1 of the Deed?***

Yes. The AIPH breached the covenant in clause 6.1 of the Deed by failing to give HCAM an IPR Transfer Notice once AIPH wished to enter into the BBD Licence Agreement and before it did so.

***Question 2: If “yes” to Question 1 above, was notice required to be given in accordance with clauses 6.2 or 6.4 of the Deed?***

Yes. AIPH was obliged to give HCAM an IPR Transfer Notice in accordance with clause 6.2 of the Deed once AIPH wished to enter into the BBD Licence Agreement and before it did so.

***Question 3: Did AP, to facilitate the transaction effected by the BBD Licence Agreement, transfer or assign its exclusive manufacturing and distribution rights it had under the AP Licence Agreement in breach of cl 6.3 of the Deed?***

Yes. AP relinquished to AIPH the exclusive right to use and exploit the identified intellectual property rights in the business of marketing and distributing the product to facilitate a transaction of the kind effected by the BBD Licence Agreement. AP breached clause 6.3 of the Deed by failing to give HCAM a Product Transfer Notice once AP wished to enter into the AP Licence Amendment by which it relinquished its exclusive right and before it did so.

***Question 4: If “yes” to Question 3 above, was notice required to be given in accordance with cl 6.4 of the Deed?***

Yes. AP was obliged to give HCAM a Product Transfer Notice in accordance with clause 6.4 of the Deed once AP wished to enter into the AP Licence Amendment and before it did so.

### **Final disposition**

- [52] The parties are to confer and submit a draft order reflecting the findings in these reasons and dealing with the further conduct of the proceeding.
- [53] If the parties are unable to agree on the terms of a draft order within 21 days from the date these reasons are published, then each party is to submit a draft order reflecting the findings in these reasons and dealing with the further conduct of the proceeding.

## ANNEXURE A

Clauses 6.1 to 6.5 of the Deed are in these terms:

**“6. First right of refusal**

**6.1 HCAM's first right of refusal in relation to the Intellectual Property Rights of the Product**

The parties agree that if AP and AIPH wish to sell, transfer, assign (collectively **Transfer of IPR**) all or any part of the Business, which exploits the Intellectual Property Rights in or to the Product (**Product IPR**), AP and AIPH must give written notice to HCAM of its intention (**IPR Transfer Notice**).

**6.2 AIPH and AP's offer**

- (a) For the purpose of clause 6.1, an IPR Transfer Notice will be regarded as an irrevocable offer to transfer to HCAM the Product IPR and the IPR Transfer Notice must specify the details of the Transfer of IPR, including (without limitation) the price at which AP and AIPH is willing to give effect to the Transfer of IPR (**IPR Transfer Price**).
- (b) HCAM (collectively) must, on receipt of the IPR Transfer Notice:
  - (i) accept the offer made under the IPR Transfer Notice within 30 days of receipt; or
  - (ii) enter into negotiations with AP and AIPH in relation to the IPR Transfer Price or other terms, provided that HCAM must not be offered less favourable price and terms than any offer made to any Third Parties.
- (c) If HCAM reject the offer under the IPR Transfer Notice and do not wish to negotiate under clause 6.2(b)(ii), or if after 30 days from a IPR Transfer Notice being given to HCAM, HCAM have not accepted the offer made under the IPR Transfer Notice, AIPH and AP may give effect to the Transfer of IPR, provided that the following conditions are satisfied:
  - (i) for the Transfer of IPR to a Third Party:
    - (A) the Transfer of IPR is for the IPR Transfer Price;
    - (B) HCAM have previously approved of the Third Party, that approval not to be unreasonably withheld; and

- (C) the Third Party enters into a Royalty Deed with HCAM; and
- (D) AIPH and AP must do all things necessary to ensure that the Third Party will carry out all of the obligations under this Deed and Binding HoA as though it is a party to this Deed and Binding HoA.

### **6.3 HCAM's first right of refusal in relation to manufacturing and distribution of the Product**

The parties agree that if AP wishes to sell, transfer, assign (collectively **Product Transfer**) its right to manufacture or distribute the Product or both, AP must give written notice to HCAM of its intention (**Product Transfer Notice**). For the sake of clarity, this clause is not intended to restrict AP's right to appoint sub-distributors.

### **6.4 AP's offer**

- (a) For the purpose of clause 6.3, a Product Transfer Notice will be regarded as an irrevocable offer to transfer to HCAM the right to manufacture or distribute the Product or both as the case may be and the Product Transfer Notice must specify the details of the Product Transfer, and for any Product Transfer, the price at which AP is willing to give effect to the Product Transfer (**Product Transfer Price**).
- (b) HCAM (collectively) must, on receipt of the Product Transfer Notice:
  - (i) accept the offer made under the Product Transfer Notice within 30 days of receipt; or
  - (ii) enter into negotiations with AP in relation to the Product Transfer Price or other terms, provided that HCAM must not be offered less favourable price and terms than any offer made to any Third Parties.
- (c) If HCAM reject the offer under the Product Transfer Notice and do not wish to negotiate under clause 6.4(b)(i), or if after 30 days from a Product Transfer Notice being given to HCAM, and HCAM have not accepted the offer made under the Product Transfer Notice, AP may give effect to the Product Transfer, provided that the following conditions are satisfied:
  - (i) for the Product Transfer to a Third Party:
    - (A) the Product Transfer is for the Product Transfer Price;



- (B) HCAM have previously approved of the Third Party, that approval not to be unreasonably withheld; and
- (C) the Third Party enters into a Royalty Deed with HCAM; and.
- (D) AP must do all things necessary to ensure that the Third Party will carry out all of the obligations under this Deed and Binding HoA (including payment of Royalties to HCAM) as though it is a party to this Deed and Binding HoA; or

#### 6.5 AP's first right of refusal in relation to the Royalty

The parties agree that if HCAM wish to sell, transfer or assign its right to receive the Royalty payments in accordance with clause 5 of this Deed (**Transfer of Royalty**), HCAM must give written notice to AP of its intention (**Royalty Transfer Notice**)."

By cl 1.1 of the Deed, the parties defined the following capitalised terms they used in clauses 6.1 to 6.4 or in the definitions of those terms as follows:

**"Business** means the business carried on by AP and AIPH being the development and sale of the Product.

**Confidential Information** means all confidential, non-public or proprietary information of or relating to the Company or the Business in any form whatsoever including without limitation, all information relating to the Intellectual Property Rights.

**Intellectual Property Rights** (or **IPR**) means all intellectual property and proprietary rights (whether registered or unregistered), including:

- (a) business names;
- (b) trademarks;
- (c) any right to have information (including Confidential information) kept confidential; and
- (d) patents, patent applications, drawings, discoveries, inventions, improvements, trade secrets, technical data, formulae, computer programs, data bases, know-how, logos, designs, design rights, copyright and similar industrial or intellectual property rights.

**Product** means a drug-free handheld lung physiotherapy device, including any future developed version of the drug-free handheld lung physiotherapy device (not including spare parts and/or accessories).

**Third Parties** means any party other than AP, AIPH and HCAM.”

By cl 1.2(p), the parties to the Deed agreed that, unless the context requires otherwise:

“any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;”

Clause 9.11 of the Deed is in these terms:

**“9.11 Further action**

Each party must do, at its own expense, everything reasonably necessary (including executing documents) to give full effect to this Deed and any transactions contemplated by it.”

## ANNEXURE B

By cl 2 of the BBD Licence Agreement, the parties agreed:

“On and from the Commencement Date, the Licensor authorises the Licensee to conduct the Business and agrees to license to the Licensee on a non-exclusive basis the Intellectual Property for the Term within the Territory on the terms contained in this Agreement, and the Licensee accepts that license.”

In cl 1.1 and in the schedule, the parties defined the relevant capitalised terms in cl 2 of the BBD Licence Agreement as follows:

“**Business**” means the business of manufacturing, marketing and distributing the Product including, but not limited to, entering into manufacturing, marketing and/or distribution agreements with others relating to the Product in the Territory.

“**Commencement Date**” means 4 November 2021.

“**Intellectual Property**” means the Name, Patent, Trade Mark, common law and registered trademarks, patents, copyrighted material, logos, designs, documentation, insignias, emblems, know-how, procedures, manuals, training methods and programs, marketing information, client lists and other confidential information, computer software and all other material however embodied, that is provided by the Licensor for use in the Business.

“**Name**” means AirPhysio.

“**Patent**” means:

- (i) Australian Design Application No. 201611694;
- (ii) Australian Design Application No. 201611698; and
- (iii) Australian Design Application No. 201611700.

“**Product**” means the Licensor's device known as ‘Airphysio’.

“**Term**” means the Initial Term of three years.

“**Territory**” means “Worldwide”.

“**Trade Mark**” means any Trade Mark owned by the Licensor, whether currently or in future, using the Name or identifying the Product.