

# FEDERAL COURT OF AUSTRALIA

**QPSX Limited v Ericsson Australia Pty Ltd  
(No 3) [2005] FCA 933**

**COURTS AND JUDGES – abuse of process – litigation funding – maintenance and champerty – whether real potential for abuse of process – legitimate role of litigation funding in complex commercial litigation – funding arrangement between sophisticated commercial entities – no legal relationship between funder and solicitors – litigant party retaining control of litigation – motion for stay of proceedings dismissed**

**PRACTICE AND PROCEDURE – discovery – disputed categories of documents – no point of principle**

*Trade Practices Act 1974 (Cth) s 87 s 52*

*QPSX Pty Ltd v Ericsson Australia Pty Ltd* [2004] FCA 1134 cited  
*Trendtex Trading Corporation v Credit Suisse* [1982] AC 679 cited  
*In Re Trepca Mines Ltd (No 2)* [1963] Ch 199 cited  
*Laurent v Sale & Co* [1963] 1 WLR 829 cited  
*Giles v Thompson* [1994] 1 AC 142 cited  
*Magic Menu Systems v AFA Facilitation Pty Ltd* (1997) 72 FCR 261 cited  
*Martell v Consett Iron Co Ltd* [1955] Ch 363 cited  
*Stocznia Gdanska SA v Latreefers Inc* [2000] EWCA 17 cited  
*Elfic v Mack* [2003] Qd R 125 cited  
*Fostif Pty Ltd v Campbells Cash and Carry Pty Ltd* [2005] NSWCA 83 cited  
*Clairs Keeley (A Firm) v Treacy & Others* (2003) 28 WAR 139 cited  
*Clairs Keeley (A Firm) v Treacy & Others* [2004] WASCA 277 cited

**QPSX PTY LTD, QPSX COMMUNICATIONS PTY LTD, QPSX EUROPE GmbH v  
ERICSSON AUSTRALIA PTY LTD, TELEFONAKTIEBOLAGET LM ERICSSON  
ORGANISATION, LONGREACH GROUP LIMITED and LONGREACH  
NETWORKS PTY LTD  
WAD 87 OF 2004**

**FRENCH J  
6 JULY 2005  
PERTH**

**IN THE FEDERAL COURT OF AUSTRALIA  
WESTERN AUSTRALIA DISTRICT REGISTRY**

**WAD 87 OF 2004**

**BETWEEN: QPSX PTY LTD  
ACN 083 702 907  
FIRST APPLICANT**

**QPSX COMMUNICATIONS PTY LTD  
ACN 009 230 666  
SECOND APPLICANT**

**QPSX EUROPE GmbH  
HRB-NR 133459  
THIRD APPLICANT**

**AND: ERICSSON AUSTRALIA PTY LTD  
ACN 004 071 854  
FIRST RESPONDENT**

**TELEFONAKTIEBOLAGET LM ERICSSON  
ORGANISATION NO 556016-0680  
SECOND RESPONDENT**

**LONGREACH GROUP LIMITED  
ACN 006 584 596  
THIRD RESPONDENT**

**LONGREACH NETWORKS PTY LTD  
ACN 104 959 480  
FOURTH RESPONDENT**

**JUDGE: FRENCH J**

**DATE OF ORDER: 6 JULY 2005**

**WHERE MADE: PERTH**

**THE COURT ORDERS THAT:**

**A. On the First and Second Respondents' motion filed 29 March 2005 for a stay of proceedings:**

1. The motion is dismissed.
2. The First and Second Respondents are to pay the Applicants' costs of the motion.

**B. On the Applicants' motion filed on 4 May 2005 seeking discovery and inspection:**

1. The Applicants are to submit a minute of orders for discovery and inspection to give effect to these reasons.
2. The costs of the motion will be in the cause.
3. There is liberty to apply.

Note: Settlement and entry of orders is dealt with in Order 36 of the Federal Court Rules.

**IN THE FEDERAL COURT OF AUSTRALIA  
WESTERN AUSTRALIA DISTRICT REGISTRY**

**WAD 87 OF 2004**

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ACN 083 702 907  
FIRST APPLICANT**

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ACN 006 584 596  
THIRD RESPONDENT**

**LONGREACH NETWORKS PTY LTD  
ACN 104 959 480  
FOURTH RESPONDENT**

**JUDGE: FRENCH J**

**DATE: 6 JULY 2005**

**PLACE: PERTH**

**REASONS FOR JUDGMENT**

**ON MOTIONS FOR STAY OF PROCEEDINGS AND DISCOVERY**

**Introduction**

1 On 4 May 2004 QPSX Limited (QPSX) and its subsidiaries, QPSX Communications Pty Ltd (QPSX Communications) and QPSX Europe GmbH (QPSX Europe) commenced

proceedings against Ericsson Australia Pty Ltd (Ericsson Australia) and its ultimate parent company Telefonaktiebolaget LM Ericsson Organisation (LME) and also against Longreach Group Limited (Longreach Group) and its subsidiary, Longreach Networks Pty Ltd (Longreach Networks). The applicants are engaged in the business of acquiring valuable intellectual property rights from research institutions and companies across the Asia Pacific and seek to realise their value through the execution of international IP licensing programs and the formation of spin-out companies. The causes of action are primarily for breach of a licensing agreement and misleading or deceptive conduct in contravention of s 52 of the *Trade Practices Act 1974* (Cth) (the TPA Act). The agreement, evidenced by a Memorandum dated 27 August 2003, related to the licensing and use of patent rights in technology used in telecommunications. The misleading or deceptive conduct is an alternative cause of action based on the assumption that one of the parties to the Memorandum misrepresented its authority to speak for another.

2 The relief claimed by the applicants includes a declaration that they and the respondents are parties to a Memorandum of Agreement made on or about 27 August 2003 which is binding upon them all. They seek a declaration that properly construed the Memorandum contains terms referred to in paragraphs 51 and 52 of the amended statement of claim and that Ericsson Australia and LME severally breached it. An account of royalties due under the Memorandum from Ericsson Australia and LME and damages for its breach are claimed. Orders are sought under s 87 of the TP Act to compensate the applicants for loss or damage suffered or likely to be suffered by them by the conduct of Ericsson Australia and LME in contravention of s 52 of the TP Act or to prevent or to reduce such loss or damage. Interest, including compound interest, on the amount which Ericsson Australia and LME are liable to account is also sought in respect of any award. It is said by the applicants that the overall amount in issue is in excess of \$50 million.

3 On 27 May 2004 Carr J ordered that Ericsson Australia and LME file and serve any strike out application by 11 June 2004 and that in default thereof all respondents file and serve defences by 9 July 2004. Ericsson Australia and LME filed a notice of motion seeking to strike out the statement of claim on 11 June 2004. That motion was heard on 24 August 2004 and on 1 September 2004 I made orders striking out various paragraphs of the statement of claim and giving leave to file and serve a substituted statement of claim on or before 30 September 2004 – *QPSX Pty Ltd v Ericsson Australia Pty Ltd* [2004] FCA 1134.

4 An amended application and amended statement of claim were filed on 21 October 2004. Defences were filed by the Longreach parties on 29 November 2004 and by the Ericsson parties on 7 December 2004. Replies were filed by the applicants on 1 February 2005.

5 On 29 March 2005 the Ericsson parties filed a motion seeking an order that the proceeding be stayed on the grounds that it is being impermissibly maintained in an abuse of the process of the Court. That motion was heard on 13 May 2005. On 4 May 2005 a motion was filed by the applicants seeking discovery and inspection in accordance with categories of documents set out in a schedule to the motion. The motion was heard on 27 June 2005. Judgment on both motions was reserved until today.

6 The motion for a stay of proceedings brought by Ericsson Australia and LME was based upon the funding arrangements entered into between the applicants and the litigation funder, IMF Limited (IMF). These funding arrangements were said to give rise to a potential for abuse of the Court's processes. It was argued, among other things, that under those arrangements IMF could control or influence the direction of the litigation in ways that would serve its own financial interests in receiving a percentage of any recovery rather than the proper interests of the applicants and the legitimate purposes for which litigation can be conducted. For the reasons that follow, I am satisfied that the arrangements are such that the applicant retains effective legal control of the litigation. IMF has no power to direct the conduct of the litigation nor does it have any agreement with the applicants' solicitors. Moreover the applicants are substantial commercial enterprises experienced in entering into co-funding arrangements around the world. They are unlikely to tolerate any compromise of their interests by IMF in the pursuit of its own.

7 Before turning to the motions it is helpful to refer to the causes of action raised in the statement of claim.

#### **The amended statement of claim**

8 The summary that follows outlines the allegations made. It is presented in narrative form but involves no finding of fact.

9 QPSX, QPSX Communications and QPSX Europe each carry on business 'licensing and otherwise commercialising intellectual property'. That business is carried on in Australia and

internationally by QPSX and QPSX Communications. QPSX Europe carries on its business outside Australia. The Ericsson parties and the Longreach parties are all involved in the manufacture and supply of communications products and services (pars 1 to 7).

10 QPSX Communications is the registered patentee of patents in the United States of America, Australia, Canada and the United Kingdom. These are known as the QPSX Communications SAR Patents. QPSX Europe holds a patent in Germany, known as the QPSX Europe SAR Patent. Each of the patents relates to a method and apparatus for segmentation and reassembly technology. This involves the transmission of variable length messages on a network from a source to a destination in fixed length slots which include a header field and a message segment. Steps involved in the method are pleaded and registration dates and numbers of the various patents are particularised (par 8). Further patents are held by QPSX Communications in the USA, Australia, Canada, the UK and Germany (QP Patents). They involve a queuing protocol for a communications network for queued transmission of information in packets. The network composition is set out and particulars of the patents given (par 9). The method and apparatus which are the subjects of the SAR Patents and the protocol which is the subject of the QP Patents are integral parts of a Distributor Queue Dual Bus Technology which is also known as a Queued Packet and Synchronous Exchange Technology. This technology has been an integral part of the international telecommunications standard approved by the Institute of Electrical and Electronics Engineers for metropolitan area networks since 1988 (par 10). Another protocol known as Asynchronous Transfer Mode (ATM) is described as the networking standard for high speed, high capacity voice, data, video and graphics transmission. The method the subject of the SAR Patents is said to be a fundamental element of the ATM protocol and to be incorporated into the International ATM's Standards set by the International Telecommunications Union (par 11).

11 On 18 August 1994 an agreement known as the J-Tech Contract was made between QPSX Communications and J-Tech Pty Ltd (J-Tech). It included terms under which QPSX Communications agreed to sell and J-Tech agreed to purchase certain intellectual property known as the QPSX Designs. These related to products known as Q6 and Q7 and three devices which are referred to collectively as the QPSX chipset. J-Tech was permitted, under the terms of the agreement, to make full use of the QPSX designs and enjoyed a non-exclusive perpetual licence to use the SAR Patents and the QP Patents on and from 18 August

1994 (pars 12 and 13). On 5 December 1997 the contract was amended by further agreement but these are not material for present purposes (par 14).

12 Paragraphs 15 to 20 inclusive have been deleted in the amended statement of claim.

13 On or about 12 July 2001 QPSX Communications, J-Tech and Ericsson Australia executed a deed of assignment and variation (par 21). By that deed J-Tech assigned to Ericsson Australia all of its rights and interests in the J-Tech Contract, and the full benefit of the covenants, representations, warranties and acknowledgments given to it under that contract by QPSX Communications. Ericsson Australia assumed the obligations, covenants, representations and warranties given by J-Tech to QPSX Communications under the contract (par 22). The deed amended the J-Tech Contract as assigned. The various amendments are pleaded in par 22.

14 In or about May 2003 Ericsson Australia purported to sell and Longreach Group purported to purchase, among other assets, Ericsson Australia's rights comprising the subject matter of the J-Tech Contract (as amended by the J-Tech amendment contract and the assignment deed) so as to enable Longreach Group to be able to exploit in Australia the method the subject of the SAR Patents and the protocol the subject of the QP Patents (par 28). Ericsson Australia was required by cl 17.1 of the J-Tech Contract, as amended and assigned to it, to seek and obtain the written consent of QPSX Communications to the assignment of the patent licences to the Longreach Group. Ericsson Australia did not seek or obtain such consent (par 29). Further, prior to the sale and purchase, and as Longreach Group then well knew, Ericsson Australia and/or a related company manufactured within Australia and sold both inside and outside Australia goods which employed the method the subject of the SAR Patents or the protocol the subject of the QP Patents. Some of these goods were goods to which the licence granted under the J-Tech Contract as amended related. LME and related bodies corporate manufactured goods of the kind outside Australia and sold, both within and outside Australia, goods of this kind (par 30).

15 On 17 July 2003 Ericsson Australia's solicitors sought the consent of the applicants which was necessary to enable it to give the assignment required under its agreement with Longreach Group. On 20 August 2003 the applicants agreed with Ericsson Australia that, in lieu of negotiating their consent to the assignment, they would negotiate new licences with

Longreach Group and with Ericsson Australia, LME and its related bodies corporate. The licences would relate to the manufacture and sale inside and outside Australia of goods using the method the subject of the SAR Patents or the protocol the subject of the QP Patents (par 32). On or about 25 or 26 August 2003 Longreach Group, through its Chief Executive Officer Morris Symonds, in effect joined in the agreement. This was communicated to the applicants by email on 26 August 2003 (par 33).

16 Paragraphs 30 to 41 of the statement of claim as it previously stood were deleted in the amended statement of claim. They were replaced by new paragraphs 30 to 33. There are no new paragraphs 34 to 41.

17 On or about 27 August 2003 a Memorandum was executed between QPSX, QPSX Communications and QPSX Europe, Ericsson Australia and LME and Longreach Group and Longreach Networks (par 42). This Memorandum lies at the heart of the action. It related to the acquisition by Longreach Group of assets disposed of by Ericsson Australia pursuant to the sale of May 2003. It also concerned the placement of the patent licensing arrangements between QPSX Communications and Ericsson Australia under the J-Tech Contract. It also dealt with the further and expanded global licensing of Ericsson Australia, LME, Longreach Group, Longreach Networks and related bodies corporate to make broad and unfettered use of the method the subject of the SAR Patents and the protocol the subject of the QP Patents in order to manufacture, use and sell ATM products (par 43).

18 The authority of those who executed the Memorandum on behalf of Ericsson Australia, LME, Longreach Group, QPSX and QPSX Communications is pleaded (pars 44 to 48). During the course of negotiations which followed the matters pleaded earlier, Mr Darling, the company secretary of Ericsson Australia and various other Ericsson companies, informed LME of the progress of negotiations for the new licence agreement. LME provided instructions to him concerning that agreement and informed him that LME would be a party to the Memorandum and approved the terms of its final version immediately prior to its execution (par 44A). In the circumstances, the Memorandum formed a legally binding agreement between the applicants and the various respondents (par 49). In the alternative, if Mr Darling was not authorised to execute the Memorandum on behalf of LME then it formed a legally binding agreement between the QPSX parties, Ericsson Australia, Longreach Group and Longreach Networks (par 50).

- 19 The material terms of the Memorandum are pleaded (par 51) together with terms to be implied (par 52). From 1 July 2003 or the completion of Ericsson Australia's sale of assets to the Longreach Group, the applicants agreed to grant a non-exclusive licence to Ericsson Australia, LME, Longreach Group and Longreach Networks and their related bodies corporate to use the SAR and QP Patents, the QPSX Designs and the QPSX chipset to manufacture all ATM products and to sell or use them globally. These licences were to replace the existing licence granted to Ericsson Australia under the J-Tech Contract as amended and assigned.
- 20 Under the Memorandum Ericsson Australia and LME, Longreach Group and Longreach Networks were to provide quarterly reports to the applicants setting out forecast sales for the following quarter and an estimate of the actual Sales Value for the previous quarter together with a calculation showing the amount of royalty payable. The reports were also to incorporate an estimate of sales in respect of different categories of ATM products which were made during the previous quarter (par 51(e) and (f)).
- 21 Ericsson Australia and LME jointly and, alternatively, Ericsson Australia, the Longreach Group and Longreach Networks jointly agreed to pay royalties to the applicants on global sales of ATM products by those entities and their related bodies corporate. The basis upon which royalties were to be calculated is set out in the statement of claim.
- 22 It was also a term of the Memorandum that within 30 days of its execution the parties would use their best endeavours to enter and to procure their related bodies corporate to enter a further agreement incorporating the terms of the Memorandum and necessary supplemental terms pending the execution of which the Memorandum would remain in force between the parties. The licensees would be responsible for the reasonable legal and travel costs of the applicants associated with the negotiation and execution of the Memorandum and the Further Agreement up to a maximum of \$50,000.
- 23 Implied terms in the Memorandum were that each party would do all that was necessary to enable each other party to have the benefit of the agreement contained in it and would deal in good faith with each other party to the Memorandum, particularly in finalising the Further Agreement.

24 Ericsson Australia and LME are each said to have breached the terms of the memorandum (pars 53 and 54). It is alleged that each has failed to provide to the applicants any of the reports required by the terms of the Memorandum. They are said to have failed to make any royalty payments on sales of ATM products inside and outside Australia by LME, Ericsson Australia or related bodies corporate. They are said to have failed to use their best endeavours to finalise the proposed Further Agreement and to pay any of the reasonable legal and travel costs associated with the negotiation and execution of the Memorandum or the costs of negotiating the Further Agreement. It is also alleged that LME failed to use its best endeavours to procure its related bodies corporate to become parties to the Further Agreement.

25 In order to meet the contention that LME had not authorised Ericsson Australia or Mr Darling to execute the Memorandum on its behalf, it is alleged that Mr Darling by his conduct conveyed the overall impression to the applicants that:

- (a) he was discussing the Memorandum, its terms and its operations with an authorised employee of LME;
- (b) LME, by and through its authorised employees, provided instructions to him concerning the new licence agreement; and
- (c) LME had agreed to be a party to the Memorandum and approved the terms of the Memorandum.

This conduct is said to have amounted to a representation by Ericsson Australia that LME authorised Ericsson Australia and Mr Darling to negotiate and execute the Memorandum on its behalf. If Mr Darling were not authorised to execute the Memorandum on behalf of LME then the authority representation was misleading or deceptive contrary to s 52 of the TP Act (par 59). Paragraphs 57 and 58 are deleted in the amended statement of claim, as are paragraphs 60 to 66 inclusive.

26 The amended statement of claim asserts the applicants' entitlement to the remedies sought in the application and, alternatively, claims damages for loss of opportunity pursuant to the alleged misleading or deceptive conduct.

### **The stay motion**

27 The motion for a stay of proceedings is based upon the contention that on 11 January 2005 the applicants entered into an agreement with IMF under which they sold to IMF the bare

rights of action which predicate their claims against Ericsson Australia and LME. It is said that the sole effect of the outcome of the present proceeding will be to determine the monetary value of the bonus payment to be made by IMF to the applicants in consideration of the sale to it by the applicants of the chose in action. It is submitted that where the Court's process is being utilised for the sole purpose of assisting in the trafficking of litigation the extraordinary jurisdiction to stay a proceeding for abuse should be attracted.

### **The QPSX approach to intellectual property litigation**

28 The general approach taken by the applicants to the enforcement of intellectual property rights which they hold is evident from the Annual Report of QPSX for the year ended 30 June 2004. The Chairman's letter at the commencement of the Report states that the strategy of QPSX is based on the exploitation of intellectual property and the drive for positive cash flow and profitability. He said:

*'Key objectives achieved for the year include diversification of the commercialisation portfolio into life and physical sciences and the building of an IP assertion portfolio targeting significant revenues per program.'*

The 'QPSX IP assertion portfolio' is explained in the Chairman's letter thus:

*'QPSX has been very innovative in establishing co-funding arrangements to support the programs and thus reduce the direct demands on QPSX's cash. As we have seen with the company's German SAR litigation where hundreds of millions of dollars is (sic) at stake, there are typically a number of legal manoeuvres that the defendants will employ to delay QPSX's revenue achievements, various lower court rulings, appeals and ultimately settlement discussions or final damages judgments. The key from QPSX's perspective is to ensure a balanced co-funded portfolio utilising leading legal firms in the jurisdiction that ultimately delivers substantial revenues to QPSX.'*

He observed that developers of intellectual property increasingly understand the need to ensure that their investments result in commercial applications and that QPSX has the commercial skills to assist them.

29 In the Chief Executive Officer's report, reference was made to QPSX's demonstrated commitment to preserving and protecting IP rights by, inter alia, 'co-funding arrangements in place with parties such as Lloyds of London and various US contingent counsel law firms to help manage the risk and cost associated with litigation'. QPSX, according to its Chief Executive Officer, is one of the few international companies who have obtained financing arrangements of that kind to undertake 'IP assertion programs'. He then said:

*'Where QPSX asserts its patent and other claims it seeks an outcome that recognises the value of the IP, both retrospectively and into the future. Patent assertion is a complex process requiring integrated technical, legal and commercial skills and experience which QPSX draws from both its in-house team and partners. IP assertion can be expensive and risky unless managed carefully with the benefit of experience in substantial global litigation programs.'*

30 The General Manager's report under the heading 'IP Enforcement' states, inter alia:

*'QPSX's IP enforcement strategy is to build a portfolio of IP infringement (assertion) cases using innovative co-funding mechanisms, which allow QPSX to retain a substantial share of the damages or licensing revenue that may be awarded as a result of any assertion activity. Each IP assertion program in the QPSX portfolio targets returns to QPSX in the tens to hundreds of millions of dollars.'*

Reference was made by the General Manager to Lloyds of London which provides 80% of funding in the QPSX German SAR litigation. Other models of funding were said to have been put in place in the US, including lawyers funding their own fees and out-of-pocket expenses for a share of the damages. These co-funding arrangements helped minimise the cash cost to QPSX in gaining exposure to potentially large revenue streams. Reference to the present litigation was also made under the heading 'Ericsson Licensing Program', albeit without mention of any co-funding arrangements.

### **The Applicants' agreement with their lawyers**

31 On 18 December 2004 the applicants made an agreement with Mallesons Stephen Jaques under which they engaged them to provide legal services in relation to these proceedings. The agreement comprised a letter of that date, attached 'Appointment Terms' and 'Fees and Costs' which were also attached.

32 The letter set out an 'Estimate of charges' (Part 1), the 'Basis and assumptions for charges' (Part 2) and estimates of costs recoverable or payable by the applicants according to whether they succeeded or failed in the litigation (Part 3). The lawyers stated that in providing legal services in connection with the proceedings they would confine their advice to the legal as distinct from the financial or commercial risks of the proceedings (Part 4). Under the heading 'Litigation Funding' (Part 5) the letter provided, inter alia:

*'5.1 QPSX is responsible for payment of our fees.'*

5.2 *We acknowledge that:*

- (a) *QPSX may enter into a litigation funding agreement; and*
- (b) *if QPSX enters into a litigation funding agreement, QPSX may direct us to address our invoices to the funder, who will pay our fees on QPSX's behalf.*

5.3 *QPSX acknowledges that:*

- (a) *we are not a party to any litigation funding agreement;*
- (b) *any agreement by us to direct our invoices to a funder is for QPSX's convenience only and does not detract from QPSX's primary obligation to meet our fees (and does not alter the solicitor/client relationship as between this firm and QPSX); and*
- (c) *should our fees not be met, we will pursue QPSX for recovery of those fees, who in turn must consider whether the fees are covered under the terms of any litigation funding agreement.*

...

5.6 *We understand that should QPSX enter into a litigation funding agreement, the funder may request an opportunity to be appraised of developments with the Proceedings and attend meetings with Counsel. In the absence of QPSX's express written authority, we will not:*

- (a) *attend meetings with the funder's representatives in the absence of a QPSX representative;*
- (b) *inform the funder of developments in the absence of a QPSX representative;*
- (c) *release to the funder copies of our reports to QPSX.'*

33 Part 6 of the letter related to termination of the retainer. Part 7 set out the Mallesons Stephen Jaques team and Part 8 specified how to enter the agreement.

34 The 'Appointment Terms' included a provision that:

*'You are liable for our fees and costs even if you have separately agreed with a third party that they will pay us or put you in funds to pay us.'*

### **The IMF approach to litigation funding**

35 Ericsson Australia and LME made reference to documents published by IMF on its website said to indicate the nature of its involvement in the conduct of litigation under its litigation funding agreements.

36 One such document was a record of a presentation given in August 2003 by the Chairman (Mr Halse) and the Managing Director (Mr McLernon) of IMF. Under the heading 'Funding Agreement' it was said in the presentation:

*'7. IMF settles a budget for each case with the solicitors and then undertakes to fund the action for that budgeted amount. If the solicitors go over the budget then, in the absence of agreement, they obtain the over budget amount from the settlement or judgment if and when the litigation is successful.'*

Under the heading 'Services Provided' it was stated:

*'2. Any business which simply provides funding for litigation is destined to fail. This is because the decision making, strategy and investigation and negotiation is left to the solicitors running the case. Solicitors are generally good at running cases through the courts but that is all.'*

And further:

*'8. IMF oversees the activities of the solicitors and ensures that time lines, budgets and court orders are met.*

*9. IMF executives will often be involved in the major strategic moves during the course of the litigation.*

*10. IMF reports to the client during the course of the litigation and takes instructions from the client on any major steps.*

*11. The decision as to settlement of the litigation always remains with the client.*

*12. The major clause of all funding agreements (which is our only non-negotiable term) is that IMF may withdraw from the litigation funding agreement at any time.'*

37 Documents downloaded from the IMF website on 22 March 2005 included a statement of IMF's services:

- funding for litigation and investigations preliminary to litigation;
- indemnities for adverse costs orders;
- strategic planning, monitoring and managing litigation;

- . factual investigation including asset tracings;
- . assistance in facilitating settlements and maximising the value of each claim.

38 On 6 April 2005 IMF made an announcement to the Australian Stock Exchange (ASX) relating to new litigation funding agreements. It published at the same time an IMF Investment Portfolio Report as at 31 March 2005. This showed, against the entry QPSX, a maximum claim value of \$50 million. On 18 April 2005 QPSX made an announcement to the ASX in response to the release made by IMF. It referred to the IMF Investment Portfolio Report and the maximum claim value of \$50 million set out therein. It said:

*'As previously announced, QPSX is currently unable to estimate a final value for the litigation as Ericsson's sales of ATM Products (as defined in the licence agreement in issue), are not separately reported in Ericsson's published financial information. In addition, Ericsson has not yet provided discovery of its documents in the Federal Court proceedings. However, QPSX believes, based upon its assessment of the merits of the case and the potential damages payable, that the potential claim value is significantly greater than the value mentioned by IMF.'*

#### **The Funding Agreement between the applicants and IMF**

39 It is common ground that on 11 January 2005 QPSX, QPSX Communications and QPSX Europe entered into a Funding Agreement with IMF. The recitals to the agreement were in the following terms:

- 'A. QPSX, Communications and Europe have commenced first instance proceedings in the Federal Court of Australia against Ericsson Australia Pty Ltd and others in relation to a memorandum of agreement dated on or about 27 August 2003, claiming damages, declarations, an account and interest.*
- B. QPSX, Communications and Europe have requested IMF to fund and IMF has agreed to fund the Proceedings on the terms and conditions set out in this Agreement.'*

Certain figures in the agreement exhibited to the affidavit of Mr Callahan, the General Manager and General Counsel for QPSX, are masked for reasons relating to commercial confidentiality. However those figures are not material to the outcome of this motion.

40 Under cl 2.1 of the agreement IMF is to pay the legal costs and disbursements incurred by the applicants' lawyers up to a specified limit. It also agrees, by cl 3.1, to indemnify the applicants in respect of any adverse costs order to a specified limit.

41 There is a quantity referred to in cl 1.0 as the 'Resolution Sum' which is defined as follows:

*'Seventy nine percent of the amount or amounts received (net of GST) pursuant to a settlement of, or judgment or order in, the Proceedings, including any interest and costs recovered. For the removal of doubt the Resolution Sum includes any amounts paid by any of the Defendants or any of their associates by way of royalties from time to time but excludes the SAR/QP patent rights the subject of the Proceedings (which are more particularly described in the amended statement of claim filed in those Proceedings).'*

The event of 'Resolution' is defined in cl 1.0 as the time at which the applicants or someone on their behalf receives all or part of the Resolution Sum.

42 IMF is entitled, under the agreement, to reimbursement of legal costs and disbursements which it is, or has been, or will be, liable to pay (cl 4.1). That obligation is to be met prior to the payment of any other expense or debt of the applicants (cl 4.2). Of importance is cl 4.3 which provides:

*'Upon Resolution, QPSX, Communications and Europe will pay to IMF from the Resolution Sum an amount equal to:*

*4.3.1 17% of the Resolution Sum after deducting from the Resolution Sum all amounts IMF is entitled to be reimbursed under this Agreement if Resolution occurs prior to the commencement of trial of the proceedings;*

*4.3.2 24% of the Resolution Sum after deducting from the Resolution Sum all amounts IMF is entitled to be reimbursed under this Agreement if Resolution occurs on or after the first day of trial.'*

43 Any money to be paid in settlement of, or in satisfaction of, a judgment or order in the proceedings or by way of royalties is to be paid into the Lawyers' trust account and the applicants irrevocably direct the Lawyers to apply those funds first in payment to IMF of the amounts referred to in cl 4.1, second in payment of the amount to IMF of the amounts referred to in cl 4.3 and third in payment of the balance to the applicants (cl 4.4). Clause 4.5 sets up the direct obligation by the applicants to make payments to IMF thus:

*'QPSX, Communications and Europe agree to pay to IMF that part of the Resolution Sum calculated in accordance with clause 4.3 hereof.'*

44 IMF has an option to pay 'Further Legal Costs and Disbursements' exercisable if, at any time following the completion of IMF's obligations in clause 2.1, the applicants fail to pay any legal costs and disbursements within 60 days of them becoming due and payable, IMF

provides notice of its election and is, at the relevant time, in compliance with its obligations under the agreement. In consideration for IMF paying such Further Legal Costs and Disbursements the applicants agree to pay it an additional 5% of the Resolution Sum after deducting from that sum all amounts IMF would be entitled to be reimbursed under the agreement (cl 5).

45 Clause 6 deals with the retainer of the lawyers engaged to act in the proceedings. The term 'Lawyers' is defined in cl 1.0 as follows:

*“Lawyers” Means QPSX’s solicitors, Mallesons Stephen Jaques, or any other solicitors retained by QPSX from time to time to conduct the Proceedings on behalf of QPSX.’*

Clause 6.1 of the agreement provides:

*‘The Lawyers are instructed by QPSX, Communications and Europe and not by IMF. The Legal Costs and Disbursements, however, will be paid on behalf of QPSX, Communications and Europe directly by IMF. The retainer of the Lawyers to conduct the Proceedings on behalf of QPSX, Communications and Europe will be at QPSX, Communications and Europe’s sole discretion.’*

Control of the proceeding will be in the hands of the applicants and the lawyers (cl 6.2). IMF has no standing to give any instructions to the lawyers and may not exercise any control of the proceedings (cl 6.3). IMF agrees to provide assistance in respect of the proceedings as the lawyers reasonably request from time to time (cl 6.4).

46 Clauses 6.6 and 6.7 provide:

*‘6.6 In recognition of the fact that IMF has an interest in the Resolution Sum, if QPSX, Communications and Europe want to settle the Proceedings for less than IMF considers appropriate, or if QPSX, Communications and Europe do not want to settle the Proceedings when IMF considers it appropriate for QPSX, Communications and Europe to do so, each party must seek to resolve the dispute by referring it to an independent party, mutually chosen, for advice and, if the dispute continues, it must be referred to a mediator to be nominated by the Australian Commercial Dispute Centre.*

*6.7 If the dispute referred to in clause 6.7 (sic) is not resolved within two weeks of its first arising, QPSX, Communications and Europe retain an unfettered power to conduct and settle the Proceedings.’*

There is a requirement under cl 6.8 for the provision to IMF of regular reports on the progress of the proceedings and immediate notice of any proposals for settlement. There is an

acknowledgment by IMF that any such written reports are provided solely on the basis that IMF and the applicants have a common interest in the proceedings and that any written reports are to be treated with 'the utmost confidentiality'. Under cl 9, there is a continuing obligation of disclosure thus:

*'If after the date of this Agreement QPSX, Communications and Europe become aware of any information which has or may have a material impact on the outcome of the Proceedings or the potential for any Resolution Sum to be recovered, they will immediately disclose that information to IMF.'*

47 The term of the agreement is from its date until disposition of the Resolution Sum in accordance with the agreement (cl 12.1). IMF can terminate the agreement on 30 days written notice (cl 12.2).

48 On 13 January 2005 QPSX made an announcement to the ASX of its entry into the Funding Agreement with IMF. In that announcement QPSX said:

*'QPSX expects to enter into a number of further collaborations with IMF on future QPSX IP infringement ('assertion') programs, leveraging IMF's strong reputation and experience in the Australian jurisdiction. QPSX continues to pursue its international assertion programs with its clients, making use of alternative litigation financing mechanisms such as insurance, litigation funding and using law firms on a contingent basis. QPSX's strategy is to build a portfolio of IP assertion cases utilizing these co-funding mechanisms.'*

On the same day IMF made an ASX announcement of its agreement with the applicants and stated its belief that this would be the first of a number of co-operative funding arrangements with QPSX.

### **Whether the proceedings should be stayed as an abuse of process**

49 The primary function of the Court is to decide cases brought before it, and in deciding them, to do justice according to law. That function is not compromised by the negotiated settlement of cases. Indeed there is a well-recognised public interest in their consensual resolution.

50 The integrity of the Court's primary function may be compromised where litigation is conducted in order to serve the interests of a stranger to the controversy before the Court. That is because decisions may be taken, in the name of a party to litigation, for purposes foreign to the proper purposes for which that party may prosecute or defend the proceedings. The question whether there is an unacceptable risk of abuse of the Court's processes arising out of litigation funding arrangements is to be assessed by reference to functional

considerations including the role and powers, if any, assumed by a funder in relation to the conduct of the litigation.

51 Ericsson Australia and LME contend for the wide proposition that the funding agreement in this case is champertous and has no redeeming public interest value. It is therefore said to fall within the general prohibition on ‘trafficking in litigation’. In my opinion, the arrangements between IMF and the applicants do not constitute an assignment of the applicants’ cause of action. The contractual obligation to pay a percentage of the sum (if any) recovered in the proceedings does not, without more, amount to such an assignment. Further, and contrary to the submissions made by Ericsson Australia and LME, it is for them to show, arising out of the funding arrangements, a real potential for abuse of the Court’s process sufficient to justify the grant of a stay of the proceedings.

52 The term ‘trafficking in litigation’ describes a case in which a cause of action or an interest therein is sold to a third party so that the third party might profit from the cause of action. This is a type of transaction which, under English law, is contrary to public policy – *Trendtex Trading Corporation v Credit Suisse* [1982] AC 679 at 694 (Lord Wilberforce). Two cases there cited where agreements were held void for champerty were *In Re Trepca Mines Ltd (No 2)* [1963] Ch 199 and *Laurent v Sale & Co* [1963] 1 WLR 829. Both involved the transfer of power to a third party to conduct the litigation.

53 The policy underlying the prohibition of champertous agreements was explained by Lord Mustill in *Giles v Thompson* [1994] 1 AC 142 at 153:

*‘...the purchase of a share in litigation presented an obvious temptation to the suborning of justices and witnesses and the exploitation of worthless claims which the defendant lacked the resources and influence to withstand.’*

As his Lordship explained, the virtual disappearance of the criminal and tortious manifestations of champerty and maintenance left only two rules:

1. That a solicitor could not accept payment for professional services calculated as a portion of the sum recovered from the defendant.
2. That the assignment of a bare right of action would not be enforced.

The underlying policy of the original prohibitions and what remains of them today is

informed by the apprehension of abuse of the processes of the Court. The historic concerns about encouragement to increased litigation that may arise from the maintenance of action by third parties are ‘... of lesser importance than the problems which face the ordinary litigant in funding litigation and gaining access to the Court’ – *Magic Menu Systems v AFA Facilitation Pty Ltd* (1997) 72 FCR 261 at 267. The Full Court observed in that case that the courts today are likely to take an even wider view of what might be acceptable than the support of legal proceedings based upon a bona fide common financial or philanthropical interest referred to by Danckwerts J in *Martell v Consett Iron Co Ltd* [1955] Ch 363. Such a wider view may be acceptable particularly if procedural safeguards are present or able to be applied.

54 The considerations relevant to the range of acceptable litigation funding arrangements today go beyond questions of access to justice for the ordinary litigant. The present proceedings do not involve ordinary litigants. The parties are sophisticated, well resourced commercial actors operating in domestic and international markets for the sale of complex and potentially very lucrative technologies. Their capacities to exploit those technologies and to enjoy intellectual property rights associated with them, whether as the creators of those rights or as their collectors under assignment or licence, are important elements of their participation in the relevant markets. There is no doubt that the cost of litigation in relation to such rights can be very high. Even when conducted as efficiently as it can be with the aid of skilled advisers and technical experts, it is time consuming and expensive. The development of arrangements under which the cost risk of complex commercial litigation can be spread is at least arguably an economic benefit if it supports the enforcement of legitimate claims. Where such arrangements involve the creation of budgets by funders knowledgeable in the costs of litigation it may inject a welcome element of commercial objectivity into the way in which such budgets are framed and the efficiency with which the litigation is conducted. The formulation of a budget limiting the amount of funding provided is, of course, different from the assumption by the funder of control of the conduct of the litigation. The Court is in no position to pass definitive judgments on questions of the overall economic benefits to be derived from legitimate litigation funding arrangements. But the development of modern funding services in commercial litigation may be seen as indicative of a need in the market place to which those developments are legitimate responses. It is not for the Court to judge them as contrary to the public interest unless it be shown that a particular arrangement threatens to compromise the integrity of the Court’s processes in some way.

55 The public policy concerns associated with handing over the conduct of litigation to a non-party, whether by assignment or other means, remain. For the assumption of control by a non-party raises the possibility that decisions may be made affecting the conduct of the litigation which serve the interests of the funder in a way that is incompatible with the interests of the funded party and the legitimate purposes for which the litigation is to be prosecuted or defended.

56 On an application for a stay of proceedings, the primary question must be a functional one, namely whether the funding arrangement raises an unacceptable risk of an abuse of the Court's process. As the Court said in *Magic Menu Systems* (at 268-269):

*'... where there may be the real potential for an abuse of the Courts' processes it seems to us that a stay might, in some cases, be justified. Whilst it had been said in Martell v Consett Iron at 388-389 ... that it would not be right to stay a maintained action, that was with respect to an action brought on the tort and which had not been determined. It could not then have been concluded that there was unlawful conduct and the stay was, for that reason, premature. But that is different from the position where an abuse of process has occurred, or is likely to.'*

There is a distinction to be recognised between the question whether an agreement may be unenforceable as champertous and whether the proceedings to which it relates are or could be an abuse of process. In *Stocznia Gdanska SA v Latreefers Inc* [2000] EWCA 17 the Court of Appeal of England and Wales said:

*'There are many commonplace and unobjectionable circumstances in which modern litigation is funded by those who are not the nominal parties to it. Obvious examples of this are funding by insurers, trade unions or lawyers engaged in legitimate conditional fee arrangements. If an agreement of this kind is held to be contrary to public policy it may be unenforceable.*

...

*But the fact that a funding agreement may be against public policy and unenforceable as between the parties to it is by itself no reason for regarding the proceedings to which it relates or their conduct as an abuse.'*

This passage was cited with approval by McMurdo P in *Elfic v Mack* [2003] 2 Qd R 125 at 138. A similar position was taken by Mason P (Sheller and Hodgson JJA agreeing) in *Fostif Pty Ltd v Campbells Cash and Carry Pty Ltd* [2005] NSWCA 83. Mason P observed at [104]:

*'A champertous arrangement may have a particular tendency to lead to abuse of process, whether or not champerty remains tortious. But it is that*

*tendency, and not its champertous nature as such, that must be considered in an application for a stay.'*

His Honour also said (at [132]):

*'In my opinion, the court's basal inquiry should be whether the role of the particular funder has corrupted or is likely to corrupt the process of the court to a degree that attracts the extraordinary jurisdiction to dismiss or stay permanently for abuse of process. The standard of proof is high where (as here) the plaintiff has a genuine and viable cause of action. The court will lean in favour of moulding its remedy so as to eliminate the abuse, resorting to dismissal only as a last resort where this is impossible.'*

57 In *Clairs Keeley (A Firm) v Treacy & Others* (2003) 28 WAR 139, a stay was upheld by the Western Australian Court of Appeal on the basis that there was a risk of improper intermeddling by the litigation funder (there IMF) in the litigation. That conclusion involved the court in looking behind the provisions of a Funding Agreement and a Retainer Agreement. In that case IMF had entered into a direct agreement with the solicitors for the funded party. Templeman J, who wrote the principal judgment, said (at [134]):

*'But if, in substance, the plaintiffs will simply do as they are advised by IMF, the effect will be a de facto assignment of their causes of action. Thus in reality IMF will not be funding the plaintiffs' action for a commission of about 35% of the amount recovered: it will be running the action for its own benefit, in consideration of a payment to the plaintiff of about 65% of the recovery.'*

His Honour considered that the mere potential for IMF to act in this way was a sufficient ground for concern. He referred to what the Full Federal Court said in *Magic Menu Systems* namely, that a stay may be justified where there is a 'real potential for an abuse of the court's process'.

58 In a revised application to lift the stay in the West Australian case, the Court of Appeal observed:

*'It is acceptable for the litigation to be pursued by plaintiffs who, although funded by a third party, are acting in their own interest in the pursuit of justice in their respective causes, and are so acting on the advice of independent solicitors. It is not acceptable for the litigation to be pursued in such a way that the interests of the plaintiffs are subservient to those of the funder. That would be an abuse of process.'*

*Clairs Keeley (A Firm) v Treacy and Others* [2004] WASCA 277 at [71]

59 The applicants in the present case point to the following features of the Funding Agreement as militating against any suggestion of an abuse of process:

1. The applicants retain control of the litigation.
2. There is no assignment or charging of the subject matter of the litigation.
3. The funder obtains at most less than one quarter of the net proceeds of any judgment or settlement.

Ericsson Australia and LME contend that IMF has a financial interest in delaying settlement to ensure that it occurs after the first day of a trial. They rely upon cl 4.3 of the Funding Agreement and the provision that the funder can recover 24% of the Resolution Sum if settlement occurs on or after the first day of trial, as against 17% if it occurs before that time. This is linked to the power of IMF to delay a settlement in pursuit of an increase in its remuneration under cl 6.6. Clause 5.4 is said to provide an incentive to IMF to attempt to increase the costs of the litigation in order to put itself in a position to exercise its option to take a further 5% of the remuneration sum. How it would increase those costs is not clear on the submissions.

60 The obligation on the applicants to disclose information to IMF is said to conflict with their implied undertaking not to disclose documents obtained on discovery or pursuant to other coercive powers of the Court. As to that the contractual obligations cannot, in my opinion, overcome the implied undertaking not to disclose discovered or similar documents and the contract should be so read. Any breach of that undertaking by the applicants would be a contempt to which no contractual obligation would be a defence.

61 Although IMF has in the past presented itself as a manager of litigation, the nature of its agreement with the applicants leaves it very little room to intermeddle in the present case. It has no separate agreement with the applicants' solicitors who continue to take their instructions from the applicants. Importantly, there is the practical reality that IMF is dealing with a sophisticated commercial litigant accustomed to a variety of co-funding arrangements and unlikely to be overborne by IMF or to acquiesce to action by IMF adverse to its own interests. I do not accept that the provision relating to disputes about proposed settlements alters the position in any practical way. If such a dispute between the applicants and IMF is not resolved, the applicants are free to proceed to settle as they see fit. The Funding Agreement is in substance an arms length agreement conferring what the parties plainly

adjudge to be economic benefits in relation to the enforcement of claimed intellectual property rights. In the circumstances of this case and having regard to the terms of the agreement which has been entered into between IMF and the applicants, there is, in my opinion, no real potential for abuse of the Court's processes. The motion for a stay will therefore be dismissed with costs.

### **Motion for discovery**

62 By a motion filed on 4 May 2005, the applicants seek discovery and inspection of documents in various categories set out in the schedule annexed to the motion. They also seek an order for the production by Ericsson Australia and LME of a copy of the 'EBC Supply Agreement' referred to in the defence filed on behalf of Ericsson Australia and LME.

63 An order was made on 13 May 2005 when the motion first came on for mention to enable discovery to go ahead with respect to categories of documents not in dispute. That order was in the following terms:

1. *The parties are, on or before 31 May, to give discovery by list of categories of documents which they have agreed or which they will agree between now and the provision of discovery.*
2. *The parties to provide inspection of the discovered documents by 10 June or such other date as may be agreed.*
3. *The motion is otherwise adjourned to a date to be fixed in the week commencing 13 June.*
4. *Costs of the motion today reserved.'*

64 In the event the motion came on for hearing on 27 June 2005. Debate then focussed on disputed categories of documents formulated by the applicants and by Ericsson Australia and LME. These were conveniently set out in a schedule annexed to the written submissions filed by Ericsson Australia and LME. I propose to deal briefly with each of those disputed categories.

### ***Categories 10 and 11***

65 Category 10 has a number of sub-categories which relate to the grant and licensing of the SAR and QP Patents. A number of the sub-categories were resolved in the course of argument. The principal dispute relates to the sub-category of documents sought by Ericsson

Australia and LME and described as follows:

*'In respect of each jurisdiction in which the SAR and QP patents (the "patents") are registered, applied for or in which an application for registration has been rejected:*

- (a) All documents relevant to the creation and prior art of the inventions described in the patents, including the results of all prior art searches.*
- (b) All applications (including preliminary, amended, further, divisional and final specifications) for registration of each of the patents.*
- (c) All examiner's reports and objections in respect of the applications for registration of each of the patents.*
- (d) All documents relating to opposition to registration of the patents, or either of them.'*

Ericsson Australia and LME submit that the validity of the QP Patents and the SAR Patents the subject of the alleged agreement with Ericsson Australia and LME for their exploitation, is directly relevant to the question of whether or not they and the applicants intended to enter into an agreement of the nature now alleged. The applicants, it is said, are required to discover all documents going to the validity of the registration of such patents. They are said to be directly relevant to the objective ascertainment of the intention of the parties in relation to the question whether, by entering into the agreement, that they intended to effect legal relations as now alleged.

66 I am not satisfied that the logical connection between the validity and the intention of the parties entering into the Memorandum is made out. I therefore reject the submissions by Ericsson Australia and LME for discovery in terms of the first sub-category of Category 10 which they have formulated. I will however order discovery in terms of the first sub-category in Category 10 as formulated by the applicants.

67 The second sub-category in Category 10 propounded by Ericsson Australia and LME includes expert reports. The applicants' concern was that this might extend to reports which are the subject of legal professional privilege. In the course of argument, however, it emerged that there was no real dispute about this sub-category. Plainly, any question of legal professional privilege may be raised in the course of discovery as a basis for objection to the production of any document to which it may apply. I will therefore order discovery in the second sub-category in Category 10.

68 The next four sub-categories in Category 10, as formulated by Ericsson Australia and LME, all commence with the words:

*'All documents relied upon in alleging that ...'*

and then pick up an allegation in the amended statement of claim. It was suggested in the course of argument that if the sub-categories were reformulated to begin with the words:

*'All documents relating to the allegation that ...'*

they would not be disputed. However, as counsel for Ericsson Australia and LME pointed out, this reformulation would cover a very wide range of documents indeed. Counsel for the applicants seem to support his contention by reference to what he called 'equality in discovery'. In the event I am satisfied that discovery of this category as formulated by Ericsson Australia and LME should be ordered.

69 The next disputed sub-category in Category 10, as formulated by Ericsson Australia and LME, was as follows:

*'All documents relating to the grant by QPSX or a related body corporate to any person of a licences (sic) to exploit the SAR Patents and/or the QP Patents.'*

70 This sub-category can be dealt with in conjunction with the next disputed category, which is Category 11. That category reads:

*'All documents (including but not limited to board minutes, board papers, management reports, consultants' reports, management accounts, memoranda, files & email messages) concerning or in any way related to the licensing or proposed licencing (sic) by QPSX or a related body corporate to the second respondent or a related body corporate of the second respondent of the SAR Patents and/or QP Patents for the period 19 October 1995 until 31 December 2003.'*

It was agreed between the parties in the course of argument that instead of an order for discovery in these categories at this time they should endeavour to agree the relevant facts which it is sought to expose by reference to the classes of documents defined. The factual issue being pursued by Ericsson Australia and LME in relation to these categories is whether the applicants have ever endeavoured to licence the technologies to any other party. Absent agreed facts, then leave to interrogate may be sought and the question of further discovery, should that be necessary, can be explored later. I will therefore not order discovery on the

third last sub-category in Category 10 nor on Category 11.

**Category 12**

71 In Category 12 the applicants seek discovery of the ‘EBC Supply Agreement’ referred to in paragraph 21 of the Ericsson Australia and LME defence and Distribution Agreements containing take or pay provisions entered into by Ericsson Australia or Kongsberg Defence Communications AS with Longreach Group/Hartec. They rely upon the fact that the EBC Supply Agreement is referred to in the defence. The second limb of this category deals with Distribution Agreements referred to in the definition of ‘Sales Value’ in the pleaded Memorandum. Those documents, it is said, are likely to be relevant to the construction of the Memorandum.

72 Counsel for Ericsson Australia and LME submits that paragraph 21 of the Ericsson parties’ defence pleads the material terms of an agreement between Longreach Group and Ericsson Australia. One material term of that agreement is that it was conditional upon the EBC Supply Agreement being executed. Ericsson Australia does not rely upon the existence of, or the terms of, the EBC Supply Agreement.

73 In my opinion, Ericsson Australia and LME having pleaded an innovation consignment and sale agreement with Longreach Group conditional upon execution of the EBC Supply Agreement, discovery of the EBC Supply Agreement may properly be sought notwithstanding that its terms are not pleaded. It may be that it will be demonstrated, as Mr Wyles contends, that the terms of the Agreement ultimately have no relevance to any issue in the proceeding. I am not prepared to make that determination at this stage. And given that the documents referred to in the second limb of Category 12 are mentioned in the definition of ‘Sales Value’ in the Memorandum, I accept that they are potentially relevant to the construction of the Memorandum and they should be discovered. I will therefore order that there be discovery of the documents in Category 12.

**Category 13**

74 Category 13 as formulated by the applicants is:

*‘Documents relating to the purported sale, or the purposes of the purported sale, of assets and business by Ericsson Australia to Longreach in 2003, as pleaded in paragraph 28 of the Amended Statement of Claim and paragraph 4(g) of QPSX’ reply.’*

75 In my opinion this category as formulated is far too broad and involves application of a legal concept, namely corporate purposes to the definition of the scope of the documents sought. However I will order discovery of documents ‘referring to the purported sale or the purposes of the purported sale etc...’.

**Category 14**

76 Category 14 as proposed by Ericsson Australia and LME is defined as:

*‘Documents relevant to the negotiation and execution by each of Ericsson Australia Pty Ltd, QPSX and Longreach of the Memorandum.’*

The applicants want LME to be incorporated in that category but the respondents do not concede that LME executed the Memorandum. In my opinion the category is adequately defined as:

*‘Documents relevant to the negotiation and execution of the Memorandum.’*

**Category 15**

77 Category 15 as formulated by the applicants seeks any powers of attorney ‘granted on or prior to 30 August 2003’ by LME or related bodies corporate to Ericsson Australia or Mr Darling concerning entry into contracts on behalf of LME or the execution of the Memorandum. The only dispute here concerned the timeframe. I propose to order discovery of powers of attorney in the classes defined in Category 15 which were in existence, whenever created, between the period 1 January 2003 and 30 August 2003. As indicated in argument there will be liberty to apply for further discovery in connection with that class of documents should it be necessary.

**Category 16**

78 The disputed sub-category of Category 16 comprises documents relating to board meetings of Ericsson Australia, LME and any related body corporate from 1 January 2003 to 31 December 2003 concerning the purported sale of assets and business by Ericsson Australia (or a related body corporate of Ericsson Australia) to Longreach Group/Hartec in 2003 (as pleaded in paragraph 28 of the amended statement of claim and paragraphs 20 and 21 of Ericsson Australia’s defence) including but not limited to the minutes of those meetings and

briefing papers or other correspondence prepared for the purposes of those meetings. These matters are already dealt with, in my opinion, in Category 13 and separate discovery need not be ordered.

**Category 17**

79 The final category of disputed documents is Category 17 which is in the following terms:

*'Documents summarising the volume of goods manufactured and revenue generated from the sale of goods, from 1 July 2003 by:*

- (a) Ericsson Australia, LME and any related bodies corporate;*
- (b) Longreach Group or Longreach Networks, of the following products;*
- (c) SAR chip;*
- (d) Sonet processor;*
- (e) "Orbit" processor;*
- (f) ENGINE product;*
- (g) Ethernet DSLAM;*
- (h) AXD Device;*
- (i) products which employ in whole or in part the method the subject of the SAR Patent or the protocol the subject of the QP Patents; and*
- (j) Products which comply with ATM Standard AAL5.'*

This is the category as formulated by the applicants. Ericsson Australia and LME say that the category is fishing, that the request is premature and that it will be oppressive. It is directed only to damages. The interests of all parties and the Court are said to be served by confining the category if and when the applicants establish the entitlement they allege pursuant to the Memorandum. On the other hand, the applicants say that this category seeks discovery of a limited number of 'high level' summary documents disclosing the extent of damages claimed by the applicants based on their interpretation of the term 'ATM products'.

80 Counsel for Ericsson Australia and LME submitted that in defining Category 17 the applicants assume that they have made out the case pleaded in paragraphs 10 and 11 of their amended statement of claim so that if there is an Engine Product or an Ethernet DSLAM or an AXD Device sold, then that is a product which is employing the SAR Patent or the QP

Patent but that it won't be employing the QP Patent on their own case. The submission however was predicated on the assumption of a separation of issues of liability and damages.

81 In my opinion, what is sought by this category is information about the volume of the goods manufactured and revenue generated from their sale from 1 July 2003. I do not consider that it is necessary that discovery be given of every such summary which may be in existence. I consider that the category can be narrowed to perhaps relate to such summaries in the category as were prepared for the boards of the relevant entities or their Chief Executive Officers. I also consider that this is an area which may be served by either agreement as to facts or leave to interrogate. I will therefore be prepared to make an order for discovery in Category 17 subject to a narrowing of the category in the way that I have indicated. If the parties cannot agree a more narrowly expressed category, then I will give them liberty to apply for further directions. I am not prepared to decline to order discovery on the basis of the proposition that it goes to damages and not liability.

82 I will ask the parties to formulate a minute of orders for discovery and inspection reflecting these reasons and incorporating the categories (as varied) in respect of which I have indicated that I will make an order for discovery. In my opinion the costs of the motion should be in the cause.

### **Conclusion**

83 For the preceding reasons, the motion for a stay of the proceedings will be dismissed with costs. On the applicants' motion for discovery in relation to the various categories identified I will make orders in accordance with these reasons and will require the parties to bring in a minute of orders to that effect.

I certify that the preceding eighty-three (83) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice French.

Associate:

Dated: 6 July 2005

Counsel for the Applicants:	Mr JA Thomson
Solicitor for the Applicants:	Mallesons Stephen Jaques
Counsel for the First and Second Respondents:	Mr MD Wyles
Solicitor for the First and Second Respondents:	Carrick Kellow Smyth
Counsel for the Third and Fourth Respondents:	Mr J Lin
Solicitor for the Third and Fourth Respondents:	Jackson McDonald
Dates of Hearing:	13 May 2005 and 27 June 2005
Date of Judgment:	6 July 2005