Case note: *Peter Vogel Instruments v Fairlight*

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The Full Federal Court recently overturned in part a decision of a single judge of the Federal Court in *Peter Vogel Instruments Pty Ltd v Fairlight.Au Pty Ltd* [2016] FCAFC 172. The decision serves as a useful reminder of the importance of a number of matters, including of ensuring that:

- licensees have a clear understanding of the boundaries of the terms of licences granted to them; and
- a contract has been properly brought to an end where a party purports to terminate the agreement and thereafter ceases to comply with its terms.

In 1975, Peter Vogel, a co-founder of the appellant (**PVI**), developed the world's first music synthesiser capable of sampling natural or instrumental sounds. The original synthesiser was called the "Fairlight Computer Musical Instrument" or "Fairlight CMI". In 2009, Mr Vogel decided to build a commemorative version of the synthesiser. He knew the respondent (**Fairlight**) owned the rights to the FAIRLIGHT trade mark in Australia at the time and he accordingly sought a licence from Fairlight to use the trade mark. In 2010, the parties entered into a "Development and Licensing Agreement".

Under the Agreement, PVI was authorised to use the FAIRLIGHT trade mark "for the CMI Products" (the commemorative synthesiser and a PC-compatible version) and "for marketing purposes for the CMI Products". Fairlight also agreed to develop hardware and software for the CMI Products.

In 2012, PVI received a letter from Fairlight's parent company which purported to terminate the Agreement. The reasons given included an assertion that PVI had used the FAIRLIGHT trade mark outside the terms of the licence by using it in connection with the supply, promotion and sale of an app for iPhones and iPads.

The primary judge held that PVI had breached the terms of the licence and the Agreement had come to an end as a result of that breach. PVI challenged those findings on appeal.

Was PVI in breach of the terms of the trade mark licence?

As mentioned above, the Agreement authorised PVI to use the FAIRLIGHT trade mark "for marketing purposes for the CMI Products". PVI argued its use of the trade mark in connection with the supply, promotion and sale of the app was for "marketing purposes", relying on the primary judge's findings that the app "may have had a marketing utility for the CMI Products". PVI argued that the terms of the licence did not require it to use the trade mark "solely" for "marketing purposes".

The Full Court disagreed, stating that if PVI's argument was correct, the "curious result" would be that the words "*for marketing*" in the phrase "for marketing purposes", would have little or no consequence, because any promotion or sale under the FAIRLIGHT trade mark (including of products not contemplated by the Agreement) could be "passed off as being for "marketing purposes"". The Court held clause 6(2) only permitted use of the trade mark where such use was "solely" for marketing purposes for the CMI Products.

As the primary judge found the app was a stand-alone product (not simply a marketing tool used to promote the CMI Products) and the primary purpose of the app was to derive revenue from sales of the app, PVI was in breach of the licence.

Was the Agreement properly terminated by Fairlight?

Under clause 6(4) of the Agreement, Fairlight reserved the right to "withdraw the right for [PVI] to use the Fairlight name and brand, should the name and brand be used in any way which [Fairlight] deem to be damaging to the Fairlight Brand reputation".

The 2012 letter stated that PVI's use of the FAIRLIGHT trade mark in relation to the app was damaging to Fairlight's brand. The primary judge accepted Fairlight was permitted to withdraw PVI's licence if Fairlight deemed PVI's use to be damaging to its brand and there were reasonable grounds for Fairlight holding that view. Evidence given at trial which suggested there was a proper basis for Fairlight's view, included that the dissemination of a brand into a market other than the target market is damaging to the market perception of the brand in the target market. His Honour held the licence had been validly withdrawn.

The construction the primary judge gave to the Agreement was such that all of the obligations in it "hinged upon the licence use the Fairlight mark for Fairlight branded instruments". His Honour considered the fundamental basis of the Agreement was the trade mark licence and held the entire Agreement came to an end without the licence.

The Full Court overturned that finding and disagreed with the primary judge's construction of the Agreement. The Full Court considered the Agreement was not confined to the trade mark licence and in fact conferred additional rights and obligations on the parties. The Full Court held that Fairlight's withdrawal of the trade mark licence did not terminate the Agreement as a whole for reasons including that:

- the terms of the Agreement reflected a wider commercial purpose of providing for the development and sale of hardware and software by Fairlight to PVI. PVI was not prevented from selling CMI Products under a different brand to the FAIRLIGHT trade mark, computer musical instruments incorporating components supplied by Fairlight. The Full Court rejected Fairlight's submission that the references in the Agreement to the "CMI Products" should be read as the "CMI Product branded FAIRLIGHT";

- PVI owned the copyright in the software developed by Fairlight for PVI and the Agreement provided for licence-back arrangements and the payment of royalties to PVI. The Full Court considered these arrangements were intended to operate separately to the trade mark licence;

- the Agreement contained additional termination rights, such as Fairlight's right to terminate the Agreement if PVI failed to achieve minimum sales targets of the CMI Products; and

- it was clear from the terms of the Agreement that the development of the CMI Products was not the sole objective of the Agreement. Indeed, the terms made clear that the bargain was that PVI would fund the development of CMI software so it PVI could produce CMI instruments incorporating such software as it desired, and so that PVI could procure CMI hardware from Fairlight for that purpose, on an ongoing basis.

As a result, because (contrary to Fairlight's belief) the withdrawal of the trade mark licence did not bring the Agreement to an end, the Full Court held that Fairlight's failure to perform its obligations under the Agreement after the 2012 letter had been sent, meant that Fairlight had repudiated the Agreement and PVI could be entitled to damages from Fairlight (the matter was sent back to the primary judge to determine that matter).

Was there a valid assignment of copyright to PVI?

Another issue considered by the Full Court related to the validity of the assignment by Fairlight to PVI of copyright in the relevant software. The reference to assignment in the contract was accompanied by a rider that "the exact definition of IP to be transferred will be defined in a separate document". The primary judge rejected Fairlight's contention that ownership had not passed given the absence of a "separate document". On appeal, the Full Court agreed that ownership had passed – the requirement for a separate document had arisen from a need to identify third party elements which would not be assigned but in the Court's view, this was an "insignificant aspect of the bargain being struck by the parties", it being clear that they had agreed that the software being created by Fairlight would be assigned to Vogel.

Lessons from the decision

The decision of the Full Court in this case serves as a useful reminder of a number of matters:

- licensees should obtain legal advice about the scope of licences granted to them;

- parties should be precise in their description of subject matter which is to be assigned and, if in doing so cross-reference is made to a separate document, the existence and adequacy of that separate document should be confirmed;

- parties should also use precise language when identifying events which may trigger termination; and

- a party which misconstrues its termination rights runs the risk of repudiating the contract through its subsequent non-performance.