Neutral Citation Number: [2020] EWHC 3495 (Pat)

Case No: HP-2017-000043

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
CHANCERY DIVISION
SHORTER TRIALS SCHEME

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 17/12/20

Before :

HIS HONOUR JUDGE HACON
(Sitting as a Deputy High Court Judge)

- -

Between :

(1) PERMAVENT LIMITED **(2) GREENHILL INDUSTRIAL HOLDINGS LIMITED**	**Claimants**
- and -	
STEPHEN JOHN MAKIN	**Defendant**

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- -

Michael Lazarus (instructed by **Wiggin LLP**) for the **Claimants**
Stephen Makin acting in person as the **Defendant**

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Approved Judgment

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

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HIS HONOUR JUDGE HACON

Judge Hacon :

Introduction

1. This is an application by the Defendant ("Mr Makin") for specific disclosure to be given by the First Claimant ("Permavent"). Pursuant to the direction of Mr Justice Mann dated 2 December 2020, this judgment is given on the papers.

Background

2. Permavent is a supplier of roofing products to the construction industry. The Second Claimant ("Greenhill") is the parent company of Permavent.

3. Mr Makin was Managing Director of Permavent from its incorporation in February 2003 until his resignation on 5 June 2017. For the latter part of that period he was also an employee of Permavent.

4. On 10 July 2017 Permavent brought this action against Mr Makin seeking, broadly, an assignment to it of certain patents and patent applications owned by Mr Makin. Permavent did not dispute that Mr Makin was the inventor in each case but asserted that he made the inventions while in Permavent's employment, or subject to an agreement that he would grant an exclusive licence to Permavent under the patents.

5. The proceedings were settled by an agreement dated 8 September 2017 ("the Settlement Agreement"). The Settlement Agreement was annexed to a Tomlin Order dated 16 October 2017 made by Mrs Justice Rose, as she then was. It was in the usual Tomlin form.

6. So far as is relevant to this application, the Settlement Agreement included a term under which Mr Makin assigned eight patents and patent applications to Greenhill. Also, Permavent and Greenhill undertook to pay to Mr Makin what was defined as the Easy Roof System Payment. Mr Makin was to be paid 5% of sales revenue and licence fees received by companies in Greenhill group of companies from the sales of seven roofing products which fell within the claims of the assigned patents. Such payment would continue until the expiry or revocation of the patents.

7. Mr Makin had doubts as to whether the payments due to him under the Settlement Agreement would be honoured and in order to secure his position he registered an equitable interest in five patents in the Patents Register. This prompted a renewal of these proceedings by Permavent and Greenhill under the permission to apply given in the Tomlin Order. The relief sought included an order requiring Mr Makin to cancel his registration and other relief pleaded on the basis that Mr Makin had acted in breach of the Settlement Agreement by registering his purported right. Permavent and Greenhill claimed that Mr Makin was no longer entitled to payment under that Agreement and was required to repay a sum already received.

8. Mr Makin served a Counterclaim. It has since been amended, the latest Defence and Counterclaim being dated 8 December 2020. The Counterclaim is for payment of sums due to him under the Settlement Agreement, Mr Makin alleging that to date he has been underpaid.

9. By an Order dated 11 May 2020 I gave summary judgment in the claimants' favour in relation to the registration of Mr Makin's interest on the Patents Register, requiring Mr Makin to have it removed.

10. Also on 11 May 2020 I gave directions in the case management conference for the remaining claims and the counterclaim. In broad summary, the issues are (i) whether the claimants are no longer obliged to make payments under the Settlement Agreement and Mr Makin is obliged to repay sums received, (ii) whether the clauses in the Settlement Agreement relied on by the claimants are penalty clauses and (iii) whether Mr Makin has been underpaid. Among the directions given was that each side should give disclosure. Disclosure was limited to (a) known adverse documents and (b) documents relied on by the party to support their case. The claimants' counsel in this application (who was also present at the CMC) says that the disclosure order was by agreement. Mr Makin says it was not and exhibits the first two pages of the skeleton argument filed for the CMC by counsel then acting for him. But the paragraph relied on by Mr Makin, a summary of issues to be resolved, suggests only that there was a dispute about disclosure of documents referred to in witness statements. I am not sure whether that was pursued but I believe that otherwise the disclosure order was agreed at the CMC.

The Application

11. Mr Makin filed his Application Notice on 26 November 2020 together with a draft Order to which is scheduled a list of 14 categories of documents which he requires Permavent to disclose. Mr Makin has served amended draft Orders since then, the latest being sent to Mann J's clerk on 14 December 2020 and forwarded to me. Although only Permavent is identified as Respondent to the Application, I will treat it as having been brought also against Greenhill to cover the possibility that some of the documents are held by Greenhill.

12. The documents sought concern the Claimants' sales in the three years from 1 September 2017 to 30 September 2020 and some related data for the same period, such as calculations of patent box tax relief.

13. Mr Makin also apparently seeks permission to amend his own disclosure list. I observe only that the obligation to give disclosure continues until trial. Mr Makin is not only entitled to, but obliged to add to his disclosure list if further documents emerge and it does not require the permission of the court to do so.

14. Counsel for Permavent filed a skeleton argument dated 7 December 2020 in relation to Mr Makin's application. Mr Makin filed a written response dated 9 December 2020.

The claimants' arguments

15. The claimants' first point was that Practice Direction 57AB – Shorter and Flexible Trial Schemes discourages applications for disclosure once the CMC is done. Paragraph 2.43 provides:

> "*2.43 Applications for specific disclosure and further information made after the CMC are discouraged under the Shorter Trials Scheme and should not be made without good reason.*"

16. I agree that Mr Makin has to show good reason for requiring the disclosure he now seeks. Mr Makin was represented by counsel at the CMC so there should be no question of his interests at the CMC having been overlooked because a lack of awareness of the court's procedural rules. I must assume that Mr Makin and those advising him believed at the time that the disclosure order at the CMC was appropriate, aside from a possible issue as to whether one side or the other should disclose documents referred to in witness statements.

17. The claimants' substantive point is that the Settlement Agreement contains provision for an audit, which includes the disclosure of documents by the claimants to Mr Makin's nominated accountant to justify the quantum of payments made. The claimants say that Mr Makin's accountant would have received all necessary documents before now if Mr Makin has not been obstructive in agreeing appropriate terms of confidentiality.

18. In the Settlement Agreement 'GIHL' is Greenhill, 'the Companies' are companies in the Greenhill Group including Permavent and Greenhill, the 'Easy Roof System Payment' is the name given to the payments due to Mr Makin under the Agreement and 'the Easy Roof System Products' are the products the sale of which attract payment to Mr Makin. Clauses 2.7 and 2.8 state:

> "2.7 Within 14 (fourteen) days of the end of each Quarter, GIHL and Permavent shall (a) provide the Stephen Makin a statement of the aggregate Easy Roof System Payment due in respect of that Quarter and (b) pay or procure the payment of the Easy Roof System Payment due in respect of that Quarter to Stephen Makin.
>
> 2.8 Each of the Companies shall maintain books of accounts in respect of all sales of the Easy Roof System Products in the period during which the Easy Room System Payment is payable to Stephen Makin and for a period of not less than 12 (twelve) calendar months thereafter. The Companies shall permit an independent firm of chartered accountants appointed by Stephen Makin to have access to such books of account upon not less than 15 (fifteen) business days' notice of request in order to enable Stephen Makin to verify the amount of Easy Roof System Payment due and payable to him under this Settlement Agreement. Such accountants must as a condition of access sign a confidentiality undertaking in a form provided by the Companies (acing reasonably with respect to the terms provided) agree to keep of the Companies' information

> confidential (other than sales figures only to the extent necessary to report to Stephen Makin any discrepancy found by the accountant and the basis for it). Unless otherwise agreed, any such inspection shall take place during normal business hours and at the place that the relevant records are kept by the Companies from time to time in the ordinary course of business and must be completed within 5 (five) business days. Stephen Makin shall not be permitted to make more than one request to inspect such records (which, for the avoidance of doubt, shall be to inspect the records of all Companies in a single inspection) in any 12 (twelve) calendar month period."

19. Before Mr Makin's Application Notice as filed was served, the solicitors acting for the claimant, Wiggin, were provided with a draft Application Notice. On 25 November 2020 they wrote to Mr Makin. The letter included this (Mr Yeremeyev is a director of Permavent):

> "As has been pointed out to you repeatedly during the course of these proceedings, the correct course for you to establish if and to what extent there has been any underpayment of the Easy Roof System Payment (ERSP) is for you to exercise your rights under the audit provisions at clause 2.8 of the Settlement Agreement. In that regard, we refer in particular to paragraph 37 of the second witness statement of Mr Yeremeyev dated 8 August 2019 in which he, on behalf of the Claimants, invited you to exercise your audit right. Further, by paragraph 32 of the Claimants' original Reply and Defence to Counterclaim dated 3 October 2019, the Claimants stated that they and their associated companies were ready, willing and able to permit you to exercise your audit right under clause 2.8 of the Settlement Agreement. This offer was stated to remain open in our clients' draft Amended Points of Reply and Defence to Counterclaim served on 1 May 2020 and has been repeated at various times since then in correspondence. It appears that the only issue preventing such an audit taking place is your accountant's refusal to provide the confidentiality undertakings required by our clients, which merely reflect the terms of the relevant provision of the Settlement Agreement under which the right of audit itself arises.

20. The letter went on to state that some of the documents sought had already been disclosed, being documents on which the claimants intend to rely at trial in support of their case and that the date range of the documents extended beyond the period of time to which the Counterclaim relates, alleged underpayments from September 2017 to March 2019. The letter attached a table setting out the 14 categories of documents relied on and explaining, in relation to each category, that the documents either (i) had already been provided, (ii) had no probative value which would justify the cost of disclosure, or (iii) are irrelevant to the Counterclaim. The letter continued:

> "Rather than pursuing your proposed application, our clients suggest that you now take appropriate steps to exercise your contractual audit rights under the Settlement Agreement. As indicated previously, upon

receipt of appropriate confidentiality undertakings from your accountant (which have been provided in draft form) our clients are prepared to make arrangements for a full review of their records to take place as soon as possible."

21. There was a witness statement of Michael Browne, a partner at Wiggin. He says that Mr Makin has not responded to their letter of 25 November 2020.

22. The confidentiality undertakings proposed by Wiggin were set out in a letter dated 3 December 2020, modifying an earlier proposal in the light of objections raised by Mr Makin. They are set out in the form of a draft letter from Alan Rogers, Mr Makin's accountant, to the directors of Permavent and Greenhill:

> "Dear Sirs,
>
> **Review of sales records – Confidentiality Undertakings**
>
> I have been appointed on behalf of Stephen Makin to undertake a review of your records in respect of the sale of products defined as "the Easy Roof System Products" under a Confidential Settlement Agreement dated 8 September 2017 ("the Settlement Agreement"), as provided for under Clause 2.8 of that agreement ("the Review").
>
> Clause 2.8 of the Settlement Agreement provides that I must provide an appropriate confidentiality undertaking as a condition of my undertaking the Review on Mr Makin's behalf. Accordingly, I, Alan Rogers, Director of Advoco Accountants being the undersigned hereby undertake to each of Permavent Limited and Greenhill Industrial Holdings Limited that I shall:
>
> (a) use the documents (including, for the avoidance of doubt, any copies, notes, extracts or other records of such documents or any part of them) and any information contained therein which is disclosed to me for the purpose of undertaking the Review (together, "the Confidential Information") and for no other purpose than undertaking the Review;
>
> (b) keep the Confidential Information confidential and not disclose it to any third party save, for the avoidance of doubt, that I shall be permitted to disclose such Confidential Information to Mr Makin as may be necessary for the purpose of reporting any discrepancy in the records reviewed and the payments that have been made to him (and the basis of any such discrepancy) as provided for in Clause 2.8 of the Settlement Agreement;
>
> (c) not make any copies, notes, extracts or other records of any Confidential Information (any such copy documents be referred to herein as "Copies") save, for the avoidance of doubt, that I shall be permitted to take such Copies in which any irrelevant and confidential information has been redacted as may be

> necessary for the purpose of evidencing any discrepancy in the records reviewed and the payments that have been made to Mr Makin, as provided in Clause 2.8 of the Settlement Agreement. Any Copies taken in accordance with this Clause 2.8 shall be treated as documents that have been disclosed for the purpose of the counterclaim brought by Mr Makin for the alleged discrepancy in payments made to him under the Settlement Agreement in the High Court action no. HP-2017-000043) ("the Claim") and shall not be used for any other purpose in accordance with Civil Procedure Rule 31.22 ;
>
> (d) destroy or return to you (at your request) any Copies as soon as they are no longer required for the purpose of the Review or the Claim; and
>
> (e) in the event that I become aware of any use or disclosure of any Confidential Information that occurs as a result of any breach of undertakings (a)-(d) above (or any of them), notify you immediately with full details of that use or disclosure.
>
> These Undertakings shall be governed by English law and any dispute concerning their subject matter shall be subject to the exclusive jurisdiction of the English Courts."

23. On 6 December 2020 Mr Makin replied by email. With regard to the proposes confidentiality undertakings he said:

> "You have also provided a further draft of your proposed confidentiality undertaking on the basis that in your view this is now adequate to allow an audit to take place. However, your amendments, in particular that any irrelevant and confidential information is redacted, are not acceptable as this would give your client free reign to redact any document he chooses on the basis that it is, in his opinion, either irrelevant or confidential."

24. It appears from Mr Browne's witness statement that Wiggin did not reply to Mr Makin's email.

25. Subparagraph (c) in Wiggin's letter of 3 December 2020 contains an ambiguity. It could be read to mean that the claimants may redact documents provided to Mr Rogers and that he is permitted to take copies of them. Plainly that is how Mr Makin read it.

26. The better view is probably that Mr Rogers would be entitled to see unredacted documents but to the extent that he wishes to show them to Mr Makin, the claimants may redact them first. This was confirmed by counsel for the claimants in his skeleton argument:

> "(a) D's accountant will have seen the unredacted documents before requesting copies from C, so D will be in a position to know whether anything relevant has been redacted; and

(b) C's proposed wording reflects the approach of the Court in relation to disclosure. A party is normally permitted to redact confidential material before permitting the opposing party to inspect its documents."

27. Counsel also states on instructions that one of the categories of documents sought by Mr Makin, sales invoices, would require the claimants to search nine files holding over 1,600 documents. Since they are to be disclosed to Mr Makin, the claimants would wish to redact those documents to remove confidential information and that this would be unduly onerous.

Mr Makin's arguments

28. Without intending any disrespect to Mr Makin or his quite lengthy written submissions made in response to the claimants' skeleton argument, I can summarise them quite shortly. Mainly Mr Makin criticises how the claimants and Wiggin have acted in this litigation and otherwise disputes in a general way what is said in the claimants' skeleton.

29. I think Mr Makin's key point is in his paragraph 7:

"7. It is correct that I am entitled to carry out an audit of the books and records however, so far as C has either refused to provide the required information or made it impossible for my chosen accountant to carry out such an audit due to the unreasonable terms of the confidentiality undertaking that C requires my accountant to sign, the latest version of which enables C to redact any information which in C's opinion is either irrelevant or confidential."

30. Apparently, Mr Makin believes that the claimants wish to reserve the right to disclose redacted documents to his accountant.

Discussion

31. Mr Makin is entitled to a means for checking the claimants' sales records and any other records that his accountant may reasonably require in order to understand whether he has been sufficiently paid under the Settlement Agreement. The Settlement Agreement provides for that. It seems to me that the only reason why the mechanism of clause 2.8 has not worked is a misunderstanding between the claimants and Mr Makin regarding the terms of confidentiality proposed by the claimants.

32. I do not believe that the claimants are suggesting that documents provided to Mr Rogers will be redacted. Nor do I understand them to say that Mr Rogers will be denied access to any documents in the claimants' books of account which he reasonably believes he needs to see in order to verify payments made to Mr Makin. However, if Mr Rogers wishes to show any of these documents to Mr Makin the claimants will be entitled to redact confidential information. It is to be expected that the redactions will not be relevant to the verification of payments to Mr Makin. But in any event, Mr Rogers will be aware of the

confidential information and will be permitted to disclose such of it to Mr Makin as may be necessary for the purpose of reporting any discrepancy in the records reviewed and the payments that have been made to him (and the basis of any such discrepancy).

33. I take the view that this is sufficient for Mr Makin's right to verify payments to him. I will not order the disclosure that Mr Makin seeks. First, because it would potentially give Mr Makin unnecessary access to confidential information. Secondly, to the extent that such disclosure goes beyond what will be provided under clause 2.8 of the Settlement Agreement, it will cause unnecessary cost to the claimants and will provide Mr Makin with no further information to which he is entitled. The application is dismissed.

34. As to the costs of this application, as I have said, the application is rooted in a misunderstanding. That should have been apparent to the claimants when Mr Makin's email of 6 December 2020 was read. When the opposing party is litigant in person, a legal team must take particular care to avoid any misunderstandings. It would have been better for Wiggin to have answered Mr Makin's email, clarifying their clients' position on confidentiality. I will make no order as to costs.

35. This application does not directly concern the operation of clause 2.8 of the Settlement Agreement and I do not give directions as to how it should be performed. However, it would be helpful for the claimants' solicitors and/or counsel to draft an order reflecting this judgment and to record in the recitals (a) that Mr Rogers will be permitted access to any documents which he reasonably believes he needs to see in order to verify payments made to Mr Makin and (b) that there will be no redactions in the documents shown to Mr Rogers (fuller wording will be required). If the claimants are not prepared to include such recitals, it may be that I have misunderstood their position in relation to this application and it may be necessary to reconsider my judgment.