

5th October 2007

PATENTS ACT 1977

BETWEEN

Northern Light Music Limited Claimant

and

Conversor Products Limited Defendant

PROCEEDINGS

Reference under section 37 of the Patents Act 1977 in
respect of patent application number GB 2267412

HEARING OFFICER

Peter Back

DECISION

- 1 A reference under Section 37 of the Patents Act 1977 (“the Act”) was filed by Mr Andrew James Jamieson Hall (“Mr Hall”) on behalf of Northern Light Music Limited (“NLM”) on 23rd March 2006 in respect of patent number GB 2267412 (“the patent”) in the name of Conversor Products Limited (“CPL”). Mr Hall’s statement was filed with the reference and a counter statement was filed on 18th May 2006 on behalf of CPL by Mr Jeremy Guy Brassington, managing director of CPL.
- 2 The course of these proceedings has not been smooth. Two case management conferences have been held and two preliminary decisions have already issued. There are still a number of outstanding issues which have yet to be resolved and which look set to require a further preliminary decision.
- 3 Set against this background and in the light of the recent High Court Judgment of Mr Justice Warren in the case of *Luxim Corporation v Ceravision Limited* [2007] EWHC 1624 (“Luxim”), I formed the preliminary view that this was a dispute where I should consider exercising the comptroller’s discretion to decline to deal with these proceedings under Section 37(8) of the Act. The parties were informed of this preliminary view and invited to make submissions. This they did. The

defendant in its submissions stated that in its view these proceedings would more properly be determined by the court and the claimant indicated that it considered that the proceedings should continue before the comptroller.

- 4 This matter came before me at a hearing on 16 August where Mr Hall appeared on behalf of the claimant and Mr Colley, instructed by Messrs D Young & Co, appeared as counsel for the defendant.

Background to these proceedings

- 5 Mr Hall is the inventor of the “Conversor”, which is protected by the patent. He is the director of NLM, the original proprietor of the intellectual property rights. Mr Hall is effectively a litigant-in-person and though he is certainly articulate, well-read and enthusiastic about his claim, there is little doubt in my mind that these proceedings have not run smoothly partly because of Mr Hall’s previously limited experience in this type of litigation.
- 6 It is well understood that the onus lies on the claimant to get its case right to begin with so that the defendant knows what it is meant to respond to and by when. The nature of these proceedings has been that the claimant’s arguments appear to have evolved from those set out in the claimant’s statement as Mr Hall has become aware of new facts, evidence, case law or even statute law that he was previously unaware of. Management of the case has thus been difficult.
- 7 The claimant’s reference was filed under section 37 and its form 2/77 lists several names including the defendant, Mr Hall, NLM and other previous proprietors of the patent. Remedies were sought to the effect that CPL was not legally assigned the patent and that CPL should pay royalties to NLM because of a royalty agreement which the claimant argues is carried through a chain of assignments, all stemming from the claimant’s first assignment.
- 8 The claimant also sought royalties for a period prior to the contested assignment to CPL, though apparently not necessarily from the previous proprietor, Sense-Sonic Ltd (“SSL”). The statement was served on the CPL as the registered proprietor, and a letter was sent to the claimant on 7 April 2006 indicating that the statement had been served on CPL, inviting CPL to file a counter-statement. No other party was mentioned and so it was clear that the UK Intellectual Property Office (“the Office”) considered CPL be the sole defendant under section 37.
- 9 Considerable delays in the filing the claimant’s evidence resulted in the need for the case management conferences. In the second of these, a time-table for filing evidence was agreed, although the claimant subsequently sought an extension of time for filing its evidence-in-chief because it might be necessary to include documents due to be delivered as a result of a disclosure order. The claimant’s request was refused, however, I said that if the disclosure order produced new evidence the claimant could seek permission to file it.
- 10 Although most of the documents requested were not ordered to be disclosed, because they did not relate to the matter to be decided under section 37, I did order the disclosure of documents relating to certain clauses within a sale agreement of 15 September 2003 (“the sale agreement”), around which this

dispute appears to revolve. Strictly, this agreement was between SSL and Tonewear Limited, the previous name for CPL.

- 11 During the period in which the evidence rounds were being completed, a dispute arose as to whether the disclosure order had been complied with. In addition, requests for security for costs were made by both parties although the claimant subsequently did not pursue its claim. Also, after several references in correspondence which fell short of a clear and reasoned request, the claimant requested that certain other parties be joined as defendants. After some correspondence, this request was limited to SSL and Mr Brassington. Written submissions were received and the parties agreed that a third preliminary decision should be made "on the papers". This was soon to be issued when the *Luxim* judgment was handed down and consequently this decision has been set aside for time being.
- 12 The claimant's main argument is that the sale agreement is not a legal assignment of the patent and no subsequent assignment was made and so SSL is the proprietor. On the other hand, the claimant argues the agreement implies that CPL should pay royalties to NLM even if no legal assignment occurred, suggesting an equitable agreement. Although, the royalty agreement is not explicitly written into the sales agreement, the claimant argues it is implied and it is based on a clause in the first of a chain of assignments, in the last two of which the assignor was in receivership. The defendant opposes the claimant's views and says there was an assignment and no royalties are due.
- 13 These proceedings have been littered with huge amounts of correspondence, some of which are not relevant or pose issues not already pleaded. For example, at one point the claimant suggested the royalty claim may not be straight forward if no legal assignment was made to CPL. In an E-mail sent on 4 July 2007, referring to SSL's administrative receiver, it said:

"We have been through all of the scenarios with the Insolvency Practitioners Association and we have concluded that the Administrative Receiver will be liable to us in respect of the money owing from the continued exploitation of the Patent if the Comptroller determines that there was no assignment."
- 14 Though not subsequently mentioned by the claimant, its own comments suggest this dispute may not be easy to resolve under section 37. Most recently the claimant has said the sale agreement is not admissible as evidence in any court, under section 14 of the Stamp Duty Act 1891, because stamp duty was not paid in relation to the assignment of inter-company debt which is also the subject of the sales agreement. Again, the defendant disagrees and this is a new and important issue which has been introduced very late and it may require considerable scrutiny.
- 15 In parallel to these proceedings NLM has made a complaint against a patent attorney previously associated with the patent under Rule 15 of the Register of Patent Agents Rules 1990. In addition, the Police and the Office were informed about an alleged falsification of the register which is a criminal offence under section 109 of the Act.

16 I am aware that the claimant went to the High Court on 9 August 2007 to obtain an order to remove CPL from the register of patents and in view of the present proceedings this new action was dismissed by Mr Justice Richards as being procedurally misconceived and brought at the wrong time to the wrong court.

17 It is with this background in mind that I asked the parties' for submissions in relation to section 37(8) in the light of *Luxim*.

The law

18 Section 37(8) states that:

If it appears to the comptroller on a reference under this section that the question referred to him would more properly be determined by the court, he may decline to deal with it and, without prejudice to the court's jurisdiction to determine any such question and make a declaration, or any declaratory jurisdiction of the court in Scotland, the court shall have jurisdiction to do so.

19 In the *Luxim* judgment, Warren J. overturned a decision by one of the comptroller's hearing officers not to decline to deal with a dispute. This is certainly the most recent High Court judgment on the issue of declining to deal and I believe it may well be the only one; I was certainly not referred to any others. Clearly I must look to this judgment for guidance on the approach I should adopt when considering whether to exercise discretion under Section 37(8). The predominant issue in *Luxim* was the extent to which complexity should influence the exercise of the comptroller's discretion. In the judgment the Judge says at paragraph 68:

"So, provided that one recognizes what is complex is not an absolute standard, I do not think that the Comptroller can go far wrong if he were to consider exercising his discretion whenever a case is complex; he is to be the judge of what is and is not complex in this context. What he should not do is start with a predisposition to exercise his discretion sparingly, cautiously, or with great caution. Complexity can be manifested in various aspects of a question or the matters involved in a question and counsel have identified different areas to which different considerations may apply – technical issues, factual issues, patent legal issues and non-patent legal issues to name some. What may seem technically complex to a lawyer may not seem technically complex to a hearing officer; and, the other way, what may seem complex legally to a hearing officer may seem straightforward to a lawyer. It is for the Comptroller to judge how each relevant matter or question appears to him given its complexity. I do not read Jacob LJ as saying anything different from this in paragraph 44(iii) of IDA either (i) when he refers to complex cases or (ii) when he says that the Comptroller's jurisdiction should be reserved for relatively straightforward cases. The phrase "relatively straightforward" of itself involves a comparison of scale. An involved technical issue may be relatively straightforward to a hearing officer; a legal issue which to a lawyer may be relatively, straightforward may not be to a hearing officer, and may not, on that basis, so appear to the Comptroller."

20 The Judgment then continues, at paragraph 69:

“Accordingly, I reject the submissions of Mr Birss and Mr Mitcheson about the principles governing how the Comptroller should exercise his discretion to decline to deal and in particular the submission that, where complexity is the only relevant factor, he should do so only in highly complex cases. However, what Jacob LJ said in one or two brief sentences about the general approach is not to be taken as legislation or even to represent a complete statement. It is a statement of the general approach which needs to be adapted to fit the facts of each case; in particular, the concept of complexity (or whether an issue is relatively straightforward) needs to be judged in relation to different areas where different issues can arise (eg, technical, factual, legal) and needs to be judged against the expertise and experience to be expected of a hearing officer as compared with that of a judge.”

21 This seems to me very clear guidance that I should consider exercising my discretion to decline to deal if a case is complex. I do not need to reach the conclusion that this case is highly complex, rather I need to satisfy myself that its complexity is such that when judged against the expertise and experience to be expected of a hearing officer as compared to that of a judge, it is a matter which would more properly be determined by the court.

The hearing

22 I reminded both parties to focus their submissions on whether I should or should not decline to deal with this entitlement dispute. In order to guide them, I referred to paragraph 55 of the *Luxim* judgment where the judge endorsed Mr Thorley’s approach to considering the various issues. He said:

Mr Thorley draws attention to four sorts of issue which an entitlement dispute might throw up, and considers the suitability of a hearing officer to deal with them bearing in mind that he is a technical person not a lawyer:

a. Technical issues: this may need expert evidence to assist the decision maker. Ordinarily, a hearing officer will be equipped to deal with such issues.

b. Factual issues unrelated to technical issues: these are bread-and-butter matters for a judge. Of themselves, they may not merit a referral to the court. But the issues may be seen to be sufficiently complex to merit transfer, especially, I would observe, if findings of fraud or breach of fiduciary duty are to be found against a party or a witness, a factor which, whilst not by itself conclusive, one might normally expect to be more appropriate for a judge.

c. Patent law issues; the hearing officer is usually to be expected to be a suitable tribunal to deal with such issues, be they English or foreign law issues.

d. Non-patent law issues: I agree with Mr Thorley in thinking that issues of this sort (whether of English or foreign law) would ordinarily be regarded

as the province of the judge. Of course, it cannot be said that any case which involves a point of law is one which would more properly be dealt with by a judge, but it is a factor and may very well be an important factor.”

- 23 In addressing these points, it was agreed that Mr Colley should open on the basis that the defendant was effectively opposing the *status quo* by asking the comptroller to decline to deal.

The defendant's submissions

- 24 Mr Colley began by saying the issues to be considered are not those routinely dealt with by the comptroller who, he said, mainly hears cases where entitlement revolves around who the inventor is and thus entitlement often follows. I think this oversimplifies the nature of many disputes heard before the comptroller and he certainly has dealt with entitlement cases where contractual issues have played a role. However, Mr Colley went on say that, “...the contractual issues in this case are many, various and legally complex.”
- 25 I shall try to summarize the main points of Mr Colley's submissions by grouping them in a convenient manner which does not necessarily follow the order in which they were presented.

Technical issues

- 26 It was accepted that because of a hearing officer's experience, dealing with *technical issues* is the Office's forte, but there was nothing technical about this dispute.

Factual issues unrelated to technical issues

- 27 Mr Colley argued that in terms of complex factual issues, this case was “riddled with them”, suggesting a transfer to a judge is appropriate. These issues are: the factual nexus (as Mr Colley put it) surrounding the series of transactions; what people knew in relation to obligations from previous transactions; and allegations of bad faith.
- 28 *Effect of a series of transactions:* Mr Colley argued that the passages in *Tito v Waddell (No 2)* [1977] Ch 106 (“Tito”), referred to in the claimant's skeleton had been taken out of context and cannot be applied to the present case as the claimant might wish. He suggested *Tito* taught that in order to determine entitlement, the whole series of transactions needed to be looked at, deciding what each transaction does to determine the outcome at the end of the chain. He suggested there are questions here of: assignment; questions of novation; questions of construction of agreements. However, to decide these issues one must consider the factual background in which the agreements were made.
- 29 Mr Colley also argued that Mr Hall had got the wrong end of the stick with *Tito*, even in relation to the first agreement and under the original assignment from NLM, the first assignee is required to oblige by contract any subsequent assignee to pay similar monies back up the chain. That may be the real issue.

- 30 He suggested that for the royalty agreement to carry forward a new assignee would have to enter into a tri-partite agreement with the previous assignee and the assignor. Fundamentally, he argued that there are questions about what the law of assignment does and, in his client's opinion, these were complex legal issues.
- 31 Clearly, there seems to be a dispute over what the various parties to transactions knew or should have known. It is clear there have been accusation by Mr Hall of misconduct by agents and by Mr Brassington. Mr Colley suggested that a close examination of the facts is required, perhaps to a degree that the Office is not normally troubled with.
- 32 It was also suggested that there would be the need for substantial cross-examination in order to determine the facts and some of the questioning might have to go back to the original 1991 assignments. In addition, further evidence will have to be filed, especially in relation to stamp duty. Mr Colley also said he could not see it being as small an action as it might have once appeared. I believe four days were originally set aside for the hearing.

Patent law issues

- 33 Then there are patent law issues which Mr Colley suggested related to all legal issues which arise under the Patents Act. These include whether section 37 allows an order for an award for royalties which is a difficult point in itself which may attract an appeal. Then there is a suggested interplay with section 34.
- 34 *Powers under section 37(1)(c)*: It is argued that it is not clear whether the Office had the powers under section 37(1)(c) to order an award for royalties. His client argues that a correct construction section 37 does not allow it. The need to construe the section suggests the question would more properly be determined by the court. The claimant disagrees and so, said Mr Colley, there is a dispute which presents a difficult argument of law.
- 35 Mr Colley also suggested that the appeal to the House of Lords in the case of *Yeda Research and Development Ltd v Rhone Poulenc Rorer Holdings* [2006] EWCA Civ 1094, may consider the issue of a limitation period in relation to the recovery of damages by way of royalties.
- 36 *Rectification under section 34*: It was argued that Mr Hall's focus on the last transaction meant that NLM was effectively attempting to rectify the register based on its interpretation the last transaction. Thus, the claimant was proceeding on the basis that this was a section 34 action, which must be dealt with by court. Mr Colley referred to NLM's attempt during the previous week to take the dispute to the High Court which perhaps indicated that the claimant itself must have thought the action should have been dealt with under another section and/or in the court.
- 37 He also argued that the case of *Coflexip Stena Offshore Limited's Patent* [2007] RPC 179, raised by NLM in its skeleton, also related directly to section 34 proceedings and was of limited usefulness in these proceedings.

38 *Other:* NLM's skeleton suggested it would not pursue the rule 15 and section 109 points. The defendant said this was a last minute tactical ploy to reduce the perceived complexity of the issues prior to this hearing and defendant did not consider this to be an unambiguous abandonment of the issues. These issues may be resurrected and this was not an appropriate way to behave in proceedings. Furthermore, the defendant believes they add much complexity to the case.

Non-patent law issues

39 Finally there are the non-patent law issues which Mr Colley argued are most often the province of a judge. These include the construction to be placed on each of the transactions in the chain which may depend on facts surrounding each transaction. As suggested earlier, these are complex arguments about the laws of assignment, equity and novation. All of which, it was suggested, are unfamiliar to a hearing officer.

40 *Likelihood of an appeal:* It was also suggested by Mr Colley that whatever the outcome of a substantive hearing, the loser, whoever it is, would almost certainly appeal – which I must say does seem likely given the history of disagreement in this case. Though the likelihood of appeal per se is not reason enough to decline to deal, the defendant suggested that its likelihood combined with the fact that it is the first post *Luxim* case may be a reason to decline.

41 *Stamp duty:* Mr Colley said his client believed that the agreement is effective whether it is stamped or not. If stamping is required, it just may be that the agreement cannot be used in evidence. Mr Colley noted that the claimant appeared to rely on advice given to him by a Mr Hanratty of Her Majesty's Revenue and Customs ("HMRC") but the defendant did not know what facts Mr Hall had presented to Mr Hanratty. So there are factual issues here which need to be fully examined. It was argued that Mr Hall's view cannot be considered to automatically show that the alleged assignment to CPL is invalid and that Mr Hall was trying to pre-judge the issue of entitlement by doing this. Later in response to Mr Hall's submissions Mr Colley re-iterated the point that HMCR may give its view on an issue but it is for the court or the tribunal to decide the issue.

42 Mr Colley also pointed out the difficulty if the sale agreement was decided not to be admissible in evidence (in an attempt to show that no assignment had been made) whilst at the same time NLM was still attempting to use the document to show that royalties were owed to them. This was a difficult problem which the court might be best placed to solve.

43 Finally, on the stamp duty issue, the defendant did not deny that the sales agreement had not been stamped but it simply says it is rightly unstamped. There are arguments about whether the inter-company debt attracts stamp duty, whether it was a transfer of debt or a capital loan. Overall, it is not a routine issue for the comptroller to deal with and it is another complex point of law.

44 *Later assignment from SSL to NLM:* Mr Hall has said he is now a director of SSL and the defendant was clearly concerned about the suggestion that because NLM believed no assignment to CPL had taken place, NLM had obtained a later

assignment of the patent from SSL.

- 45 Even if there was no assignment to the defendant (which it disputes) and the agreement was merely an agreement to assign in future, then SSL are in breach of their agreement and Mr Hall may attract personal liability for this as a director of SSL. Again, Mr Colley said this is a difficult legal or equitable point which is not an issue which usually comes before the comptroller.
- 46 *Procedural issues:* Mr Colley referred me *Henderson v Henderson [1843] 3 Hare 313*, which obliges parties in litigation to bring all points at once in order to bring finality to legal proceedings. It was pointed out that the last transaction (the sale agreement) covered a variety of registered rights, not just the patent, and those rights were intertwined with these entitlement proceedings. I think Mr Colley was suggesting that all these issues should be decided at once and that the best place to deal with that would be in the court.
- 47 Additionally, the defendant claimed there are procedural complexities within this case due mainly to the manner in which the claimant continues to bring up new issues, often some way into the proceedings, pointing to amendments of the statements and further evidence rounds.

Summary

- 48 In summary, Mr Colley suggested that: "On any objective view...by a hearing officer of even above average experience of entitlement proceedings, this is a very, very difficult action. In those circumstances it meets the criteria in *Luxim* amply to be the subject of a decline to deal decision and it should be so."

NLM submissions

- 49 Mr Hall opened by saying that the assignment from SSL to NLM took place on 23rd October 2006 in the belief that the assignment to CPL was not valid. He only became a director of SSL on 18th June 2007 and so "there was nothing untoward about that whatsoever."

Technical issues

- 50 Mr Hall agreed there was little in this dispute that required a hearing officer's technical expertise.

Factual issues unrelated to technical issues

- 51 Mr Hall did not have a lot to say with regard to factual issues. He took the view that the bottom line was that the hearing officer would be able to consider the chain of assignments and surrounding documents and it would not be a complex matter for him to do that.

Patent law issues

- 52 Mr Hall argued that there is no complexity in deciding whether the sale agreement was just that or an assignment of the patent. Again, he said it would be "bread-and-butter" for the comptroller to construe clause 4.5. Therefore, he

could not see how the matter could be more properly dealt with by the Court.

53 Mr Hall suggested that the comptroller might not have to decline to deal across the board and he could deal with one question and decline the other, suggesting the royalty issue could be declined. That would make the section 37(1)(a) question simple.

54 There was some discussion generally about the sales agreement, its content and who should have signed the form 21/77. This did not really help me one way or the other in deciding whether I should decline to deal.

55 I was then addressed on the content of the sale agreement. At first it appeared I was being asked to pre-judge the assignment issue, however, I allowed Mr Hall to continue and I appreciated he was merely attempting show me that the clauses within the agreement were, in his opinion, relatively easy to construe.

56 Mr Hall also drew my attention to a letter sent to SSL's administrative receiver from the defendant's solicitor on 2nd September 2004. He argued the letter discusses the sale agreement and shows that almost a year later the defendant was aware that an assignment of the patent was still required. He said the letter refers to clause 4.5(a). Mr Hall read out parts of this clause which I understand reads in full as follows:

"4.5 Without prejudice to the generality of the foregoing , following the completion of this agreement the Seller and/or Office Holders....shall at the Buyer's expense:

(a) execute the delivery of such documents (in such a form as the Seller's solicitor shall approve) in particular

(i) an assignment to Tonewear of the inter-company debt and the goodwill to Elitesound Limited; and

(ii) an assignment to Tonewear Limited of the intellectual property rights..."

57 He also discussed clause 4.5(b) which says that the seller at the buyers' expense will:

(b) do such further acts as shall be reasonably necessary to vest in the buyer such rights, title and interest as the Seller may have to the Assets transferred to the Buyer in accordance with the terms of this agreement at the cost of the Buyer."

58 Mr Hall, therefore, suggested that the sales agreement was an agreement to hold the assets in trust until they were assigned as indicated in clause 4.4(c) which says that:

"4.4 On the transfer date Seller shall:

(c) hold all other assets on trust for the buyers absolutely pending assignment."

- 59 I think I can summarize Mr Hall's arguments by saying that, in his opinion, all the comptroller had to do then was consider the content of the sales agreement in the light of the Law of Property Act 1925. In doing so it would be quite clear that a further assignment was necessary to transfer the patent rights and this has not taken place after the sales agreement. Hence, the assets were held in trust. This would in effect make the section 37(1)(a) issue a very straight forward one. He did not see why any other court would more properly deal with this issue.
- 60 I should point out that Mr Colley objected, indicating that perhaps Mr Hall was not referring to a final version of the sales agreement. So there may be some argument about content of this last transaction.
- 61 There was also some discussion about an assignment of design rights in Singapore. Mr Colley challenged its relevance. I think Mr Hall's point was to contrast the two situations in which there was legal assignment in one situation and not the other
- 62 Turning the section 37(1)(c), the claim for royalties stems for the original assignment of the patent's priority application, GB9027789.9 on 31 July 1991 and that of the improved hearing system, the Conversor, on 18 December 1991 from NLM to Select Hearing Systems Limited ("Select").
- 63 As a reminder to myself, clause 2 of the latter assignment reads:
- "The assignee hereby covenants with the assignor that the assignee shall not assign any of its right and benefits hereunder other than subject to the terms of this assignment and upon the condition that the party in whose favour such disposition is made shall enter into an agreement with the assignor in terms of this clause and clause (3) below."*
- 64 Clause (3) goes on to say:
- "In further consideration of the assignment the assignee shall pay 5% of the ex-works invoice price of any articles which fall within the scope of the application..."*
- 65 Mr Hall argued that this agreement required any future assignee to take on the obligations of the previous one and he said the sales agreement between SSL and the defendant "very clearly said that the intellectual property was subject to the obligations and terms and conditions".
- 66 I believe Mr Hall was arguing that it would be clear to the hearing officer that the buyer could not take up the benefit of the assets without taking the obligations which went with them. He said the teaching of *Tito* supported this view. I could see where Mr Hall is going with this line of argument and, although I am not in position to decide this particular issue, he suggests this point is less complex than Mr Colley said it was. Therefore, the royalty issue would not be more properly dealt with by another court.
- 67 Furthermore, Mr Hall argued that royalties are rights under the patent for which the comptroller may make an order under section 37(1)(c). He said there was

nothing complex about that.

Non-patent law issues

- 68 Mr Hall's basic point about stamp duty is that he argues that HMRC have told him that the duty is due, if it is not paid the document cannot be used as evidence and, in Mr Hall's view, that is the end of the matter. He refuted the idea that inter-company debt was in fact capital loan which is exempt from stamping. Mr Hall also said he had spoken to the previous chief executive of SSL and he confirmed there was no capital loan.
- 69 Mr Hall said the stamp duty issue is not one the comptroller has to decide. HMCR would make that decision as to whether in their opinion it should be stamped and he suggested: "It cannot actually complicate these proceedings."
- 70 Indeed, I think Mr Hall was arguing that this issue simplifies the whole dispute because if the defendant does not pay the duty then the sales agreement is simply not admissible. I did point out that I or the Court would have to consider the other side's point of view at a substantive hearing.
- 71 On the issue of the various assignment documents, Mr Hall argued that the Office has already reviewed the assignment documents and that to consider them further at a substantive hearing is "bread-and-butter" for the comptroller, presumably once the HMCE expresses its view about the stamp duty.

Summary of Mr Hall's submissions

- 72 In summary Mr Hall suggested that the evidence made available to me, together with guidance from *Tito* that he had referred to in his skeleton, would help me to determine that there was a requirement for royalty payments to NLM, providing it was written into the original assignment. This is a right under the patent. I simply had to make a decision as to the survival of that right and make an order and I could do that no less properly than the court. He attempted to show me that the entitlement issue was straight forward simply because no legal assignment took place and the patent was merely being held on trust. In any event, the sales agreement attracted stamp duty and was inadmissible as evidence because it had not been paid.

Assessment of the arguments

Technical issues

- 73 I agree with both parties that there are no technical issues in this dispute.

Factual issues unrelated to technical issues

- 74 Mr Colley is correct in that there are a lot of factual issues to be considered, especially those revolving around the series of transactions. It would be tempting to look at the last of those transactions and make a decision, however, I think that understanding the effect of the previous transaction may be important. Even if it was decided that a written assignment had not taken place, the tribunal or court would have to determine the parties' understanding of the agreement with a view

to looking at the equitable position – if there is one.

- 75 Clearly, the sale agreement appears to lack an explicit royalty clause and so the facts relating to what the parties knew about the original agreement is important. It needs to be determined, I think by cross-examination, whether the defendant knew or should have known about the alleged obligation. Due diligence comes into this too as SSL were in receivership at the time of the transaction.
- 76 Cross-examination may be needed to investigate events from many years previous and the allegations of lies or misconduct suggest that a very careful assessment of oral evidence will be required.
- 77 Overall, I take the view that the assessment of the factual issues is likely to go significantly beyond that which the comptroller might normally expect to be confronted with and so these issues in themselves are complex.

Patent law

- 78 The areas of patent law and non-patent law have separate aspects but it seems to me they overlap in some places especially when trying to determine if and when rights have been transferred.
- 79 With regard to the Rule 15 enquiry, there is uncertainty as to what affect this will have on these proceedings and similarly for the section 109 issue. I felt that Mr Hall fell far short of unequivocally agreeing to drop these issues when I asked him about it at the hearing and so I am not convinced they are dead. Even if the complaints are dropped there is still the underlying suggestion of misconduct and dishonestly. These issues will, in my opinion, either directly or indirectly affect the proceedings and they crossover more into the territory of factual issues as mentioned above.
- 80 I am not convinced by Mr Colley's argument that NLM is effectively running a section 34 argument which, therefore, must be determined by the court. As I understand it, Mr Hall represented NLM before Richards J in the High Court and at that hearing he discovered that what he was trying to do in those proceedings might well fall under section 34 as an attempt to rectify the register. Returning to these proceedings, however, I am quite happy that this dispute comes under the broad umbrella of entitlement, whether it is a complex dispute or not. If NLM is successful on its entitlement point by showing that CPL is not the rightful proprietor of the patent then I, or the court, would be required to make an order to rectify the register to give effect to a decision which was adverse to the defendant. That in itself does not make this a section 34 action. Also, I do not believe I can separate the section 37(1)(a) and (c) issues as Mr Hall suggested at the hearing. NLM has pleaded both of these points under section 37 and while that is still the case I think it is clear that I must either deal with both points together or decline to deal with both points together so that there is finality to these proceedings.
- 81 The Office has given a preliminary view that the section 37(1)(c) claim could be heard, this was in the context of a suggestion that the reference should be summarily dismissed. The question of whether royalties could be awarded is, in

my view, an issue still to be determined and one which would take up a significant part of a substantive hearing. There are serious questions regarding the interpretation of this section.

- 82 On balance, I believe that the interpretation of the section and accounting for the falsification and misconduct issues, if they come to anything, suggests this is not a typical entitlement case. However, I am not convinced that, in their own right, these patent law issues are such that I should decline to deal.

Non-patent law

- 83 I do not accept that the procedural issues here are unusually complex on their own. Neither do I believe the likelihood of appeal is something to take account of in its own right. Hearing officers appreciate that certain cases will be appealed but it does not absolve them of making a decision. Also, I am not convinced that the later assignment from SSL to NLM is problematic as it seems to me that if there was an assignment to CPL then the later assignment has no effect.
- 84 Looking at what both sides have said, it is not unreasonable to believe that the law of contract or assignment, law of equity, trust law, etc. may play a role in these proceedings. Obviously, this was the main thrust of Mr Colley's submissions but even Mr Hall referred to the patent being held in trust as a result of the sale agreement and he said also I had to consider applying the Law of Property Act 1925.
- 85 Many of these issues when taken in isolation appear to be perfectly manageable and Mr Hall's line of argument was to look at how some of these issues may be easily dealt with in isolation. Then, in his view, everything else would fall into place. However, this approach is too much of a simplification. Indeed, I consider there are many difficult and inter-dependent non-patent law issues.
- 86 In paragraph 16, I referred to misgivings that NLM had at one time (but perhaps no more) if no legal assignment had occurred. Though I will not and cannot decide the issue, it seems NLM may have a reasonable case for saying there was no legal assignment. Does his mean NLM are not entitled to royalties? No, not necessarily.
- 87 The law of equity might come into play. As Mr Hall suggested, if CPL received the benefit of the patent rights perhaps they should receive the burden. That is a feasible proposition if the essential clause was in the sale agreement – but it is not. On the other hand, perhaps it is a purely a contractual issue and later assignors were obliged to enforce NLM's royalty clause by placing it in subsequent assignment documents.
- 88 Then there is the stamp duty issue around which I expect there to be much debate. It is unlikely to be a straight forward decision. However, if the claimant is correct and the sale agreement cannot be used in evidence then what effect does this have? Mr. Colley argues this does not necessarily mean that rights have not been transferred to CPL whereas the claimant argues the opposite. What is clear to me is that it makes consideration of the claim appear to be much more complex if the sale agreement cannot be used in evidence.

Summary

- 89 There are so many possibilities that in all good faith I cannot accept that the non-patent law issues are straight forward. I believe they are not issues, both in their complexity and number, that a hearing officer would be used to dealing with. On their own they merit transfer to a judge

Cumulative effect

- 90 The parties generally argued about the complexity of individual issues. However, Warren J made it very clear at paragraph 87 of his *Luxim* judgment that one must not merely consider the effect of the issues raised in isolation as perhaps the hearing officer had in his original decision not to decline to deal. Warren J said:

“In my view, it is the cumulative effect of the issue involved by reference to which the issues of referral must be judged. The fact that a question involves, say, three issues each of which taken in isolation would not make it appear to the Comptroller that the question involved matters which would more properly be determined by the court does not mean, when those three issues are taken together, that the overall appearance is the same. The question involves three matters which, taken together, may well make it appear to the Comptroller that the question does involve matters which would more properly be determined by the court.

- 91 It is clear that these proceedings have brought up a multitude of difficult issues, many of which relate to non-patent law or factual issues which may on their own suggest I should decline because a judge would have significantly greater experience in dealing with them. However, whether that is true or not, there is no doubt in my mind that they cumulatively pose a very complex legal problem. Overall, in my opinion, transfer is merited.

Decision

- 92 Taking everything in account, the types of issues discussed in great detail by both parties, their individual and cumulative complexity, together with the guidance given in *Luxim*, it seems to me that the question referred to the comptroller would more properly be determined by the court, and so it is my decision that the comptroller should decline to deal with this entitlement dispute under section 37(8).

Costs

- 93 Mr Colley suggested that his client was entitled to “scale costs at the absolute upper region of the scale”, payable within 14 days, due to number of issues and the manner in which they have arisen. Mr Hall had little to say with regard to costs, but after some discussion he did claim scale costs.
- 94 I note that neither party asked for costs in relation to the previous two preliminary decisions and their submission for the pending preliminary decision so I make no award in this respect.
- 95 I do take the defendant’s point about the claimant’s prosecution of its case,

especially with regard to the late introduction of the stamp duty issue. It is also clear that the diversion to the High Court in the previous week disrupted the defendant's preparation for this hearing. However, I must also take into account that this not a substantive decision on entitlement and I have also considered Mr Hall's inexperience in these matters. Furthermore, I see no good reason to depart from usual time period given for paying costs.

- 96 Accordingly, I award the defendant costs of £1500 to be paid by NLM not later than 7 days after the expiry of the appeal period. If an appeal is lodged, payment will automatically be suspended pending the outcome of the appeal

Seeking the court's determination

- 97 Under Civil Procedure Rule 63.11, where the comptroller declines to deal with an application under section 37(8), any person seeking the court's determination of that application must issue a claim form within 14 days of the comptroller's decision.

Appeal

- 98 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

PETER BACK

Divisional Director acting for the Comptroller