

Rolls Building
7 Rolls Building
Fetter Lane
London EC4A 1NL

28th June 2013

Before

THE HONOURABLE MR JUSTICE BIRSS

JAMES WILSON FLYNN

(Claimant)

-v-

MARTIN GEORGE BURCH

(Defendant)

APPROVED JUDGMENT

APPEARANCES:

For the Claimant:

MR. J. EVANS TOBY
MR. C. HALL

For the Defendant:

MR. A. NORRIS

Transcribed from a Digital Audio Recording by
J L Harpham Limited
Official Court Reporters and Transcribers
55 Queen Street
Sheffield S1 2DX

JAMES WILSON FLYNN -v- MARTIN GEORGE BURCH

APPROVED JUDGMENT

MR JUSTICE BIRSS:

1. This is an action for breach of warranty. The warranty in question is contained in an agreement between the claimant and the defendant which was made in June 2000 and was executed by deed.
2. The application before me is by the defendant to strike the action out on the grounds it has no reasonable prospect of success or for summary judgement in the defendant's favour. On this application the defendant is represented by Mr. Andrew Norris, instructed by Cobbetts and the claimants are represented by Mr. Jason Evans Toby and Mr. Christopher Hall instructed by Davenport Lyons.

The facts

3. In August 1999 patent application No. 9920067.7 was applied for (the “first application”). The defendant, Mr. Burch was one of the inventors.
4. In June 2000 there were discussions between the claimant, Mr. Flynn and the defendant, Mr. Burch. The point of those discussions was that the claimant was going to invest in the relevant companies which were being set up or had been set up to exploit the inventions or invention referred to in the application. One of the agreements entered into was a shareholders agreement. The shareholders agreement contains a warranty given by the defendant. The relevant part of the warranty is as follows:

"No act has been done or omission permitted whereby any such
Product IPR have ceased or might cease to be valid and enforceable".

5. Product IPR is defined in the definition section of the agreement as follows:
"Product IPR means all Intellectual Property Rights in or with respect
to the Product including for the avoidance of doubt and without
limitation (a) that the Patents and (b) the trade marks."

6. Intellectual Property Rights are defined as including:

"any patent, patent application, knowhow, trade mark, trade mark application, trade name, registered design, copyright, database rights, trade secret and other confidence information, design rights, topography rights, service mark, service mark application, moral rights, registrations of and applications to register any of the aforesaid items, rights in the nature of any of the aforesaid items in any country, rights in the nature of unfair competition rights and rights to sue for passing off or other similar industrial or commercial right"
7. Patent is defined as follows:

"Patent means (a) the patents and applications short particulars whereof are set out in Schedule 6; (b) all patent applications that may hereafter be filed anywhere in the world by or on behalf of the company or of the subsidiary which either are based on or claim priority from any of the foregoing patents and applications; and (c) all patents which may be granted pursuant to any of the foregoing patent applications".
8. In August 2000 a further patent application No. 0020962.7 was filed, I will call this the second application. As part of that process a declaration of priority was made in relation to that application to claim priority back to the first application. Both applications matured in this country into patents which can be referred to as the first and the second patents.
9. Moving on a decade, the position in 2011 was as follows. In proceedings in the European Patent Office concerned with a third party's patent, (as I understand it the third party was a rival competitor company with the company which arose out of the agreements I have mentioned) the defendant swore an affidavit. The thrust of what was said in the affidavit is that Mr. Burch says that he made available to the public after August 1999 and before June

2000 certain information. The information essentially is information which relates to the inventions and for this purpose I can assume it is information that relates to what is in the first patent application, but the details do not matter for this application before me.

10. By this stage in 2011 or possibly 2012 the claimant owned the relevant company. He also wished to sell it. He wished to sell it for £3 million. He entered into negotiations with a buyer. The buyer said in the negotiations that the validity of the second patent was at risk as a result of the contents of Mr. Burch's affidavit because if the second patent loses priority, which is something that can happen in a patent case, then the information which Mr. Burch says is in the public domain would be potentially prejudicial prior art. The buyer, accordingly, was only prepared to pay £2 million because the value of the company depended on the value of the patents and the value of the patents depends on the balance of risks and this is a risk.
11. The sale was agreed for £2 million. The claimant now sues the defendant for breach of the warranty. He says that if the information in the affidavit is correct then the defendant is in breach of the warranty because he had committed an act before June 2000 which might prejudice the validity of the second patent. I note that the warranty includes the word "might". The claimant's point is that it does not matter whether in fact in the end the second patent is valid or not, the warranty was more widely drafted and included a warranty that things which might cause the second patent to cease to be valid had not been done. The claimant says that this is what has happened in the present case.
12. The defendant does not agree. The defendant's case is the claim is wrong because the claim can only crystallise and the loss can only exist if the second patent does in fact lose priority and there is no reason to think it will. There is no basis to say that it will lose priority and so there is no breach of the warranty.
13. Before me there was no dispute about the law applicable to applications to strike out and summary judgment, I will not rehearse it in this judgment. I am not satisfied the defendant's

argument on this application means that the claimant in this case has no realistic prospect of success. I should emphasise that what I am about to say about this does not mean at all that I find that the claimant is right in this claim. The question I have to ask myself is whether the claimant has a realistic prospect of success. The reason the claimant has some realistic prospect of success it seems to me is that the warranty in question uses the word "might". Breach of the warranty may not depend on whether the second patent actually is invalid or actually does lose priority. The warranty is capable, on the claimant's case, of being breached simply by putting the validity of the second patent at risk. I am not finding that that is what has happened, however, the claimant's argument is a perfectly proper and reasonable argument. The risk to validity has crystallised or at least the evidence in this case demonstrates how it could crystallise by the diminution in value of the company whose value depends on the patents. At the risk of repeating myself I should emphasise that I am not finding that that has actually happened. What I am finding is that on the material before me there is a realistic prospect of the claimant being able to satisfy a Court that this is the case.

14. I can see a number of potential difficulties with the claimant's claim. One matter which I will mention at this stage is that the particulars of claim does not set out any details of its claim for loss. There was a suggestion in the claimant's materials before me that that is something that can be dealt with later. In my judgment that is not right and in this case, since I am going to refuse this application, the claimant must do better than that and plead its loss properly.

15. However, for these reasons, I am not prepared to strike out this case as I indicated to Counsel at the start of this hearing as a result of reading the materials in the skeleton arguments. However, there is another point raised in the evidence of Ms. Susan Hall for the defendant. Ms Hall's evidence at paragraph 27 and paragraph 30 says the following,

"27. The second patent also claims priority from the priority date. If it did not it would not form part of the Product IPR and so the warranty,

which pre-dates the filing of the second application, would not apply to it."

16. Then in paragraph 30:

"However, there would be a real issue whether the second patent would still be Product IPR and so caught by the warranty at all if it ceased to claim priority in the first application".

17. That argument is inconsistent with the way the defendant's case is pleaded. I will return to the pleadings in a minute. On the face of it however, it seems to me to be a proper argument and has a realistic prospect of success. In fact I must say at the moment I do not see the answer to it. The claimant's skeleton argument at paragraph 59 picked up what Ms Hall had said and rightly pointed out that the argument was inconsistent with the pleadings. The point is that, as pleaded at the moment, it is admitted that the second patent claims priority from the first application and therefore, as I understand the defendant's pleading, it is admitted that the second patent is within the definition Product IPR; whereas the point that Ms Hall makes is that if the second patent is not entitled to claim priority it must necessarily therefore cease to be within the definition Production IPR. The retort from the claimant (skeleton paragraph 59) is that the definition of the 'Patent' in the shareholders agreement includes applications not only claiming priority from the first patent application but also applications "based thereon" (my emphasis). Now it is true that the definition of Patent in the agreement does indeed use the words "based on" and it is also true, as the claimant rightly points out, that it is admitted in the pleadings that the second application is based on the first application. However, as I discussed with counsel I must say I am far from convinced that it is correct that the second patent is correctly to be characterised as being a patent or an application "based on" the first application.

18. The clause in question which defines "Patent" includes applications filed later which are either based on or claim priority from the "foregoing applications". The "foregoing

applications” clearly includes the first application. In my judgment an application “based on” an earlier application would be one which matures from it. There is no question that the second application is not that kind of thing. “Based on” could also include an application which claims priority from the first application, but that will only be true if in fact the claim to priority survives. As Ms Hall says, if the second patent loses priority, which would be the circumstances in which what Mr. Burch said would put its validity at risk, then the second patent can no longer to be regarded as something within the definition of Patent in the shareholders agreement. Accordingly there would have been no breach of the warranty. I should emphasise as I have already that I am not deciding this point now, not least because of the state of the pleadings not have I decided what the true construction of the shareholders agreement is.

19. It was because of these matters that I raised with Counsel at the start of this application the concerns I had with this application. Now, Mr. Evans Toby in the course of his address to me indicated that his client's case would be that the warranty is wider than I have just articulated it and he points to the fact that the definition of intellectual property rights is drafted in such a way that it might be said to cover the second application, even the second patent, even if the definition of "Patent" does not. I am bound to say I am far from convinced that that is correct. However, what this all goes to show, it seems to me is that this case needs to be considered carefully by those advising both sides. I rather think that the upshot of this morning's hearing will be that both sides need to deal with their pleadings.
20. Looking at the matter overall, it seems to me that the defendant is likely to succeed in this claim since the only circumstances in which Mr. Burch could be said to have put the validity of the second patent at risk are circumstances in which the second patent is not covered by the warranty and hence there is no breach either way. However, it would plainly not be fair to decide that point now and I do not do so. When I raised it with the parties they asked me to deliver my judgment on the application and that is what I have done. So, I will dismiss

this application. I anticipate that both sides will need to reconsider their pleadings and I will hear the parties as to the way forward.
