BL O/143/06

6 June 2006

PATENTS ACT 1977

BETWEEN

Ceravision Limited	Claimant
and	
Luxim Corporation	Defendant

PROCEEDINGS

Reference under sections 12 and 82 of the Patents Act 1977 in respect of European patent application 01957305.4 (EP1307899) and International patent applications PCT/US01/23745 (WO02/11181) and PCT/US2004/002532 (WO2004/070762)

HEARING OFFICER Phil Thorpe

PRELIMINARY DECISION

1 This decision addresses the question as to whether or not the comptroller should decline to deal with this reference.

Background

2 International patent application number PCT/US01/23745 was filed on 27 July 2001, claiming priority from US applications 60/222028 and 09/809718 filed on 31 July 2000 and 15 March 2001 respectively. PCT/US01/23745 names Luxim Corporation as applicant and Frederick M Espiau, Chandrashekhar J Joshi and Yian Chang as inventors. PCT/US01/23745 was published as WO02/11181 on 7 February 2002 under the title “Plasma lamp with dielectric waveguide” and entered the regional phase as EP20010957305 (publication number EP1307899) on 7 May 2003.

3 International patent application number PCT/US2004/002532 was filed on 29 January 2004 with a priority date of 31 January 2003 in the name of Luxim Corporation with Frederick M Espiau and Yian Chang named as inventors. It was published as WO2004/070762 on 19 August 2004 under the title “Microwave energised plasma lamp with dielectric waveguide”.

4 Entitlement proceedings were launched before the comptroller by Ceravision Limited, a UK-based company, on 11 August 2005. The entitlement dispute

can be briefly summarised as follows. Ceravision claim to be the successor in title to all personal property and general intangibles including intellectual property rights of Digital Reflections Inc (DRI), a US Corporation. Ceravision claim that all or part of the inventions of EP01957305.4, PCT/US01/23745 PCT/US2004/002532 was devised and developed by employees of DRI in the course of their employment or by consultants working for DRI pursuant to a commission and so now belong to them. They allege that DRI disclosed the inventive concept to some of the currently named proprietors who then in breach of confidence and an agreement filed the patent applications in issue.

5 Luxim argues that the invention in these patents was the work of the named inventors and that there has been no breach of contract or confidence.

6 In a letter dated 31 January 2006 that accompanied their counterstatement, Luxim requested that these proceedings be transferred to the High Court. This was resisted by Ceravision. The matter therefore came before me at a hearing on the 7 April 2006 where Luxim was represented by Mr Thorley and Ceravision by Mr Mitcheson.

The law

7 There is no dispute that the comptroller has the necessary jurisdiction under section 82 to hear this dispute. The issue before me is simply whether the comptroller should exercise his discretion under section 12(2) and decline to deal with the reference. Section 12 reads as follows:

> (1) At any time before a patent is granted for an invention in pursuance of an application made under the law of any country other than the United Kingdom or under any treaty or international convention (whether or not that application has been made) -
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> (a) any person may refer to the comptroller the question whether he is entitled to be granted (alone or with any other persons) any such patent for that invention or has or would have any right in or under any such patent or an application for such a patent; or
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> (b) any of two or more co-proprietors of an application for such a patent for that invention may so refer the question whether any right in or under the application should be transferred or granted to any other person;
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> and the comptroller shall determine the question so far as he is able to and may make such order as he thinks fit to give effect to the determination.
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> (2) If it appears to the comptroller on a reference of a question under this section that the question involves matters which 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.
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> (3) Subsection (1) above, in its application to a European patent and an application for any such patent, shall have effect subject to section 82 below.

The nature of the discretion under 12(2)

8 The comptroller has in the past generally exercised his discretion under section 12(2) cautiously recognising that parliament has given specific powers to the comptroller to hear entitlement disputes. There are, as explained in the

Patent Hearing Manual[1], circumstances where the comptroller would normally decline to deal. These include where any request is supported by both sides and where there are parallel High Court proceedings covering much the same issues. Neither of these situations arises in the present case although it should be noted that there is an ongoing interference action before the United States Patent and Trade Marks Office (USPTO) in respect of a corresponding US patent.

9 It has also been the case that the comptroller would not normally decline to deal simply because the case is difficult or complex. Mr Thorley suggested to me that such an approach might no longer be appropriate given the recent comments of Jacob LJ in *IDA Limited v the University of Southampton (IDA*)[2]. He referred me specifically to paragraph 44 of the judgment where Jacob LJ observes:

> 44. Finally, we were told that in very recent years there has been (and are) a rash of entitlement cases before the Comptroller. No-one really knew why this jurisdiction (which in my time at the Bar was moribund) has recently come alive. There was some speculation about an increase in joint ventures, or an increase in the appreciation of the significance of patents. None of them really explain it. But for whatever reason, I think it is worth making some further observations about entitlement cases in general:
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> i) Many disputes of fact are likely to arise – who thought of what and who suggested what to whom are the sort of issues where perceptions after the event are all too likely to differ, people being what they are. It is all too understandable that one man is likely to overestimate his input at the expense of others, even where he is fundamentally honest. Disputes about this sort of issue can readily become overheated and prolix.
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> ii) Such disputes are all the more likely where the parties' relationship has not been reduced to writing – then complex questions as to implied legal relationships may themselves bedevil the dispute;
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> iii) It is clearly unsatisfactory for a dispute to be in two different fora. So, as I have already said, if the Comptroller finds that there are (or are going to be) parallel proceedings for breach of confidence or contract in the Court (High or County) then, unless he is satisfied that resolution of the entitlement proceedings before him will resolve all matters between the parties, he should normally, at a very early stage, refer the dispute to the court using his powers under s.8(7) or the corresponding sections. And even if there are no parallel proceedings in the court, he should seriously consider making such a reference in complex cases. He did so, rightly, for instance, in *Markem.* The Comptroller's jurisdiction should be reserved for relatively straightforward cases.
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> iv) In some cases it may make sense for the claimant to initiate proceedings virtually simultaneously before the Court and Comptroller – with a view to making an immediate application to the Comptroller for transfer. In that way the Court can be given all the powers conferred by s.8(2), powers which it would probably not have if faced merely with a claim for breach of confidence or contact.
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> v) Parties to these disputes should realise, that if fully fought, they can be protracted, very very expensive and emotionally draining. On top of that, very often development or exploitation of the invention under dispute will be stultified by the dead hand of unresolved litigation. That may be the case here: there has not yet been any exploitation by either side, some 8 years after the original PCT application. It will often

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1 Chapter 2.77ff Patent Hearing Manual
http://www.patent.gov.uk/patent/reference/hearing/index.htm
2 IDA v the University of Southampton [2006] EWCA Civ 145

be better to settle early for a smaller share than you think you are entitled to – a small share of large exploitation is better than a large share of none or little.

vi) This sort of dispute is particularly apt for early mediation. Such mediation could well go beyond conventional mediation (where the mediator facilitates a consensual agreement). I have in mind the process called "medarb" where a "mediator" trusted by both sides is given the authority to decide the terms of a binding settlement agreement. Such a power in effect already exists in the Comptroller once he has found a case of entitlement (see s.8(2)). But by then it will probably be far too late.

10 Mr Thorley recognised that these observations are not binding on me, but suggested since they were made by such a "reputable source", that they provide a steer that should point me in a slightly different direction to that which the comptroller has traditional taken. This was especially so in respect of complexity in light of the final sentence of subparagraph iii). Mr Mitcheson however argued that *IDA* does not require a wholesale change in the principles that should be applied when considering the question of declining to deal. Rather he characterises the comments of Jacob LJ as merely a reminder to everyone that the comptroller does have the power to transfer cases.

11 In fairness to Mr Mitcheson I believe that Jacob LJ was seeking to do more than issue a reminder. His observations, which appear to be a response in particular to his experiences in the *IDA* and *Markem*[3] cases, raise a number of general points that are certainly worthy of wider debate. It is however not for me here to engage in that debate. It is I believe sufficient for me to say that I do not believe that his comments require the comptroller to alter significantly the approach that he currently takes in deciding whether he should decline to deal with a case.

12 That approach is, as the Patent Hearing Manual explains, to look at all the arguments put forward in the particular case and decide where the balance lies. If having done that it is clear that the matter should more properly be dealt with by the court then I should decline to deal. Where however there is a clear benefit in the comptroller deciding the matter then I should obviously not decline to deal.

13 The question of what should happen were I to find that the case could be dealt with equally by the comptroller and the court was the subject of some debate between the parties. In his skeleton Mr Mitcheson suggested that on this point I should look for guidance from the practice of transfers between the Patents County Court (PCC) and the Patents Court. He referred me specifically to *Ciba v Coopervision*[4] where Neuberger J after considering in some detail the issue of transfer concluded that where the proceedings are equally suitable for the PCC or the Patents Court, or if the arguments in favour of each court are relatively finely balanced, then there should be no order for transfer. Mr Thorley referred to this as the "inertia principle" but argued that it was not relevant here because the applicant was forced to start his proceedings before the comptroller whereas in *Ciba* the claim could have been brought in either the PCC or the Patents Court.

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3 Markem Corp v Zipher Limited [2005] RPC 761
4 Ciba v Coopervision [2001] Neuberger J.

14 I think I need to be careful in taking too much from precedents such as those put forward by Mr Mitcheson which relate to transfer between relatively similar jurisdictions such as the Patents County Court and the Patents Court. Here we are considering transfer between more distinct jurisdictions.

15 That said I believe that Mr Mitcheson main point holds good. Although it is perhaps slightly frowned upon these days to express any inclination towards "inertia" I think that it is clear from the wording of section 12(2) that I should consider transferring only where it is "more proper" for the courts to handle the case. In other words if all things are equal I should not decline to deal.

16 Having considered the general approach that I need to follow I will now look at the particular arguments relating to this case.

Arguments put forward by Luxim for transferring to the court

17 The basis on which Luxim seeks transfer was first clearly set out in their letter to the comptroller dated 20 February 2006. In this letter, which both Mr Thorley and Mr Mitcheson referred me to at the hearing, Luxim identifies 15 major issues that it believes makes the case particularly complex and as such more suitable for the courts. I will discuss these in some more detail shortly.

18 The letter also highlights other factors that should point me towards declining to deal including the importance of the case to Luxim and its desire, given the likelihood of an appeal being lodged, to avoid the cost of a potential tier of appeal. I also consider these below.

Complexity

19 I will start with complexity since this seems to be the main reason put forward by Mr Thorley why I should transfer the case. Mr Thorley sought to portray the likely case as being exceedingly complex and certainly much more complex than typical entitlement cases. He expanded at some length in his skeleton and at the hearing on the 15 issues originally identified in the letter of the 20 February. He argued that some of these issues on their own would justify me declining to deal and that taken as a whole these issues indicate a degree of complexity that points overwhelmingly to a case that should more properly be dealt with by the court.

20 Mr Mitcheson sought however to suggest that the type of issues that Mr Thorley has focused on were in fact common to entitlement disputes before the comptroller. Mr Mitcheson is I believe right in respect of some of the issues and I will deal with those first.

21 There is common ground that the significant events that are at the heart of this dispute occurred some time ago, 5 or 6 years at least, and that a number of witnesses may need to give oral evidence. It is not clear to me, nor I suspect to either party at this stage, how many witnesses will need to be cross examined. The estimate from both sides is that a hearing of 5-6 days may be necessary. Cross examination is however a common feature of entitlement disputes and the comptroller's hearing officers have built up considerable experience in

hearing oral evidence, including that relating to events that occurred some time ago, and of evaluating the reliability of that evidence.

22 I would add that in this case there is also likely to be significant documentary evidence to aid in the understanding of events (in contrast to the type of dispute Jacob LJ appeared to be referring to in IDA). In particular there is a signed agreement between the relevant parties (or their predecessors in title) that is alleged to have been breached. They also appears to be other documentation in the form of meeting notes that may of be of assistance although Mr Thorley did express some reservations about the quality of some of the material. The US interference action, which is currently running ahead of this case, may also throw up further documents.

23 Mr Thorley also suggested that expert witnesses may be necessary to compare what the claimants are able to demonstrate is clearly their own work with the invention set out in the patents in issue. Mr Mitcheson contended that any expert testimony, if indeed there is to be any, will be narrowly focused. Again there does seem to be a certain amount of documentation, not least a prior patent application by the claimants that may be of assistance in this respect. In any case expert testimony is again not uncommon in hearings before the comptroller.

24 Mr Thorley also expanded on various complex “legal” issues set out in the letter of the 20 February. Many of these he argued fall to be decided under the Law of California or US bankruptcy law and may involve detailed consideration of the interpretation under these laws of the agreement alleged to have been breached. The issue of the assignability of this agreement and any obligations arising under the law of confidence may also need to be addressed. All of these factors suggest that there will be a need to weigh up a considerable body of expert evidence on foreign law. Mr Thorley argued that this is something that a High Court judge would be more expert at.

25 Mr Mitcheson unsurprisingly painted a slightly different picture of these legal issues. In particular he was keen to point out that the agreement between the parties was not a difficult document to construe and that it was likely that agreement could be reached at least on the principles to be applied prior to any hearing. In this respect he noted that that both sides had already employed Californian lawyers to assist in the US interference action and that these lawyers will be of assistance in narrowing down the issues to be considered here. He concluded by suggesting that judges would not necessarily have any greater experience in determining issues of Californian law than hearing officers.

26 I do not know whether Californian law has featured significantly in any disputes before the comptroller. However given the scope of section 12 it is not uncommon for issues relating to foreign laws, including interpreting contracts and obligations arising under such laws, to be argued before the comptroller.

27 There is also a further issue which Mr Thorley characterises rather eloquently as having a “decision of higher courts written all over it”. This is the question of

limitation and in particular whether a bar on any action for breach of contract or confidence under Californian law would prevent entitlement proceeding here. Mr Thorley submits that this is a matter that as far as he is aware has not been considered before. That may or may not be the case. Even if it is new, I am not persuaded that it is something that necessarily, or even more properly, should be handled first by the Court. I have no doubt it is an interesting question. But I do not believe, nor did Mr Thorley appear to argue, that it is a question that a hearing officer would not be able to determine (although he did suggest that a High Court judge might be more familiar with the issue of limitation). Rather as I understood it, his argument was that it is likely to be an issue that would invite appeal to a higher level and that therefore to save time and expense I should refer the whole case to the courts now.

28 Mr Thorley essentially repeated this argument when he discussed the likelihood of a more general appeal given the importance of the dispute to both sides. There was a brief exchange between Mr Thorley and Mr Mitcheson about whether the invention is actually "crucial" to Luxim. Whatever term is used it is clear to me that the action is of considerable importance to both sides, and in this respect I took due note of the witness statement submitted by Mr McGettingan, the President and CEO of Luxim. There is a likelihood therefore that any decision at first instance could be appealed. But that could be said for virtually all entitlement disputes. Consequently the argument that transferring to save time and cost because of the likelihood or possibility of appeal, whether on an important point of law or more generally on the finding, does not really carry any weight. The differing rights of appeal between the comptroller and the court on the one hand and between the court and the Court of Appeal on the other hand do not in my mind alter this.

29 A similar argument was put forward in respect of the desirability of getting the patented product on the market. Mr Thorley, again supported by the witness statement of Mr McGettingan, explained that his client is seeking a prompt resolution of the dispute since the development of a marketable product is almost complete. Mr Thorley did not however suggest that the matter could be disposed off at first instance more quickly by the courts. His only real argument in this respect was in relation to possibly saving time by reducing the number of tiers of appeal and I have dealt with that above.

Cost of proceedings

30 Mr Thorley did allude to the possibility that there may be a cost saving if the matter was transferred to the court. This was not really expanded on although I suspect he believed the greater experience of, as he put it, a legally qualified judge, might produce some time savings although in the end he appeared to concede that the length of any hearing was likely to be the same whether it was before the comptroller or the court.

31 Mr Mitcheson however argued that cost was a factor pointing towards not transferring. He suggested, without to me any basis, that Luxim would use any proceedings in the court to "bump up costs" to the detriment of his client. He also suggested that his client might not be able to rely on the same legal team if the matter was transferred to the court. This would increase costs. He took

me to *Halliburton v Smith*[5] where Fysh J in considering whether a case should be transferred from the PCC to the Patents Court, observed that the possibility of representation by patent attorneys before the PCC may be decisive. This argument might have had some weight were it not for the fact, as was rightly pointed out by Mr Thorley, that Mr Patel who is employed as the in-house counsel for Ceravision is a solicitor. Hence all that would be needed if the case was transferred would be a slight alteration in the respective roles of the Ceravision legal team.

32 The only cost savings would therefore appear to be those that follow from the relative informality of proceedings and predictability of costs before the comptroller. However that cannot be an overriding reason in favour of choosing that forum.

Conclusion

33 So what can I conclude? Firstly it seems to me that the fact that the issues in question - although complex - are unlikely to be that foreign to proceedings before the comptroller. There might conceivably be issues that are new, not just to the comptroller but also possibly to patent entitlement disputes in general. However I am not persuaded that any new issue, or for that matter any old issue however complex, this is likely to arise <u>in this case</u> could not be handled justly by a hearing officer. The hearing officer will also be assisted to some extent by what appears to be significant documentary evidence.

34 Equally I do not believe that the likelihood of appeals on any new points of law or on any other aspect of the decision can be an overriding factor towards declining to deal.

35 Therefore on balance I do not believe that the case could be more properly handled by the court and therefore I make no order to decline to deal with this reference.

Next steps

36 Procedure under section 12(1)(a) is governed by rule 7, under which - the statement and counterstatement having been filed - the evidence rounds begin. In particular, under rule 7(4) the claimant, Ceravision Limited, may now file evidence in support of their case. Any such evidence should be filed within six weeks of this decision. I would also invite Ceravision to file within that timeframe a further submission detailing progress in resolving any outstanding issues stemming from the earlier confusion surrounding the place of incorporation of DRI. If an appeal is lodged, the evidence rounds will be automatically suspended pending the outcome of the appeal.

Costs

37 The application by Luxim to have the case transferred to the court has failed. Mr Thorley accepted that if that happened then his client would suffer the usual consequence in costs. Costs before the comptroller normally take the form of

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5 *Halliburton Energy Services Inc. v Smith International (North Sea) Limited* (2 February 2004, unreported).

a contribution to expenses in accordance with a published scale. Having regard to the need for preparation for and attendance at the preliminary hearing, I therefore award Ceravision costs of £500 to be paid by Luxim within 7 days of the expiry of the period for appeal below. Payment will be suspended in the event of an appeal.

Appeal

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

P THORPE
Deputy Director acting for the Comptroller