

19 March 2008

PATENTS ACT 1977

BETWEEN

Reflex Modulation Limited

Claimant

and

Alteristic Instruments Limited

Defendant

PROCEEDINGS

Reference under section 37 of the Patents Act 1977 in
respect of patent number GB 2223175B

HEARING OFFICER

A C Howard

STATEMENT OF REASONS FOR DECISION

Introduction

- 1 This is the promised statement of reasons for a decision I gave at a hearing held on 1 February 2008 in which I declined to deal with a reference under section 37 of the Patents Act 1977 ("the Act"), which had been filed by Reflex Modulation Limited ("Reflex") on 13 February 2007. The patent in question is no. GB 2 223 175B ("the patent"), the current registered proprietor of which, and the defendant in these proceedings, is Alteristic Instruments Limited ("Alteristic"). The patent relates to a device for use in physiotherapy.
- 2 The proceedings have taken some time to reach this point. Alteristic had originally asked the comptroller in a letter dated 30 April 2007 to exercise discretion under Section 37(8) of the Act to decline to deal with the question. Reflex disagreed and a preliminary hearing was arranged before me on 28 June 2007. However around this time Mr Justice Warren handed down his judgment of in the case of *Luxim Corporation v Ceravision Limited* [2007] EWHC 1624 ("*Luxim*"), the implications of which I discuss below. In the event, the decline to deal request was stayed on 10 July 2007 following a Consent Order signed by both parties on the basis that the parties would have liberty to apply at a future

date to repeat the decline to deal request if, for example, further relevant issues should emerge in the subsequent proceedings.

- 3 The evidence rounds then went ahead in the normal way. However subsequently, in view of certain matters that came to light in the evidence of Reflex, Alteristic reactivated its decline to deal request. They also initiated proceedings in the Patents County Court against Reflex and others for infringement of the patent.
- 4 At the hearing on 1 February 2008, Reflex was represented by one of its directors, Mr Matthew Stobart; while Mr Jonathan Turner, instructed by Messrs Squire, Sanders & Dempsey, appeared as counsel for Alteristic.

Background to these proceedings

- 5 At the heart of the claim by Reflex is a dispute over whether an assignment of the patent dated 8 June 2001 from Reflex to Alteristic was valid. In order to get a full appreciation of the reasons for my decision to decline to deal with the question, it is necessary to go into the background of the claim in some detail.
- 6 The original patent application was filed on 27 April 1988 by Mr Stobart, together with his co-inventor, Mr Robert Taylor. They set up Reflex in December 1989 and assigned the rights in the invention to the company. The patent was granted on 9 May 1991.
- 7 By June 1991, Mr Taylor and a Mr Michael Smith were in control of Reflex and in April 1993, Mr Taylor and Mr Smith set up a new company called Mechanically Assisted Micro-Manipulation Limited (AMM) to develop the patented device. New shareholders were attracted. In June 1997, AMM changed its name to Power Assisted Micro-Manipulation Limited (PAMM) and started selling the device.
- 8 By early 2001 there were problems. PAMM was in financial difficulties and under threat of being struck off for failure to file accounts. Steps were being taken to institute criminal proceedings under the Companies Act against the directors. Against this background PAMM was approached by Ms Susan Todd representing BACA Na, an American consortium, with an offer either to buy the company for £10 million or to acquire the rights to market the device in the USA.
- 9 However Mr Taylor and Mr Smith disagreed on how seriously BACA's offer could be taken (Mr Taylor apparently being sceptical and Mr Smith enthusiastic), and, on 12 March 2001, it was rejected by an emergency general meeting (EGM) of PAMM. BACA withdrew its offer on 13 March 2001. The EGM also removed Mr Smith as a director of PAMM and appointed a Mr Didier Prongue (Mr Taylor's nephew) as Managing Director. Mr Taylor then resigned as director. In the event, PAMM went into receivership in September 2001 and was wound up in December 2002.
- 10 On 19 March 2001, an unofficial meeting of Reflex shareholders allegedly took place at which Mr Smith is said to have declared that PAMM had no licence to market the device and was therefore infringing the patent; and an agreement was reached to hold an EGM to remove Mr Taylor as director of Reflex and elect new company officers. However before anything further could be done, Mr Smith

tragically died on 17 May 2001.

- 11 In his will, Mr Smith left his shares in Reflex to Mr Taylor on trust that the voting rights could be exercised at his discretion as if he were the beneficial owner. However, and also on trust, any income or capital proceeds relating to this shareholding were to go to a Miss Moira Kingston (Mr Smith's common law wife) and to Mr Smith's children. The combined weights of the shares of Mr Taylor and those of the deceased Mr Smith constituted a majority of the voting rights in Reflex. Probate on Mr Smith's estate was eventually granted on 11 September 2001.
- 12 On 22 May 2001, Mr Taylor instructed the Company Secretary of Reflex to file the appropriate forms with Companies House terminating Mr Smith's appointment as director and that of another director who had resigned.
- 13 Meanwhile, around the time of the PAMM EGM, Mr Prongue had approached Mr Steven Griffett who was PAMM's accountant (and subsequently appointed as its Company Secretary and director) with a proposal to set up a further company to attract new investment and exploit the patent. That company, Alteristic Instruments, was incorporated on 11 May 2001 with Mr Prongue as its sole director. Mr Prongue also sought advice from Rosenblatt, solicitors, on matters relating to the assignment of the patent and, on 23 May 2001, made a formal offer to Mr Taylor to buy all of Reflex's IP rights in return for meeting Reflex's financial liabilities.
- 14 On 24 May 2001, Mr Taylor sought advice from Rosenblatt, solicitors in respect of the proposed assignment of the patent to Alteristic and the appointment of a Ms Fiona McDougall as a director of Reflex, although there is nothing before me which records Rosenblatt's response. On 1 June 2001 Ms McDougall was appointed as a director of Reflex and, at a board meeting on 8 June 2001, Mr Taylor and Ms McDougall decided to accept Alteristic's offer and the patent was assigned to Alteristic for the nominal sum of £1 and in consideration of meeting various debts of Reflex (including legal and accountancy fees in connection with the assignment and the fines due for the late submission of company accounts).
- 15 In a letter dated 3 July 2001, other Reflex shareholders, including Mr Stobart, wrote to Mr Taylor to request an EGM to appoint new directors. The EGM held on 2 July 2002 removed Mr Taylor and Ms McDougall as directors and appointed new directors, including Mr Stobart.
- 16 In August 2002, Mr Prongue sold some of his shares in Alteristic and in September 2002 he transferred his remaining shares to Mr Taylor and resigned as a director. Mr Taylor replaced Mr Prongue as director but in the ensuing period it appears he had little success in marketing the device.
- 17 In 2005, Advanced Spinal Technologies, a US corporation, acquired a majority shareholding in Alteristic and the device is now marketed in the UK under licence from Alteristic by UK Spinal Technologies Ltd of which Mr Griffett (a director of Alteristic) is sole director.
- 18 It is contended on behalf of Reflex that the validity of the assignment to Alteristic

has always been disputed, but their patent agent advised that the assignment could only be reversed by a formal adjudication. The likely cost of this had been considered to be beyond the means of the shareholders and company. On 10 April 2003, a letter had been sent to the Office stating that Reflex contested the assignment, but no further action was taken at that time.

- 19 In parallel to the events recounted above, Mr Stobart got together with a Mr Herman (who, with Mr Taylor, had previously developed a treatment bench for use with the device of the patent) to develop and manufacture a new product based on the patent. To this end, Mr Stobart set up another company, Medical Pneumatics Limited (MPL) with Mr Herman. A patent licence agreement in favour of MPL was drawn up in March 2003 (subsequently replaced by a further licence agreement in September 2005) on the assumption that the rights in the patent belonged to Reflex. In his evidence, Mr Stobart admits that this action was taken to force the hand of Alteristic and thereby to have the issue of ownership aired.

The law and its interpretation

- 20 Section 37(1) of the Act provides that

(1) After a patent has been granted for an invention any person having or claiming a proprietary interest in or under the patent may refer to the comptroller the question -

(a) who is or are the true proprietor or proprietors of the patent,

(b) whether the patent should have been granted to the person or persons to whom it was granted, or

(c) whether any right in or under the patent should be transferred or granted to any other person or persons;

and the comptroller shall determine the question and make such order as he thinks fit to give effect to the determination.

- 21 However, section 37(8) states:

(8) 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 shall have jurisdiction to do so.

- 22 The key is therefore whether the question would “more properly be determined by the court”. As mentioned above, this was considered in *Luxim* (with reference to the decision of Jacob LJ in *IDA v Metcalfe* reported as *University of Southampton's Patent Applications* [2006] EWCA Civ 145). The predominant issue in that case was the extent to which complexity should influence the exercise of the comptroller's discretion. To quote Warren J 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 [to decline to deal] 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.”

23 And 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.”

24 Paragraph 87 of the judgment says:

“In my view, it is the cumulative effects of the issues involved by reference to which the issue 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 be more properly 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 be more properly determined by the court.”

25 It is accordingly clear 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 the 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 that would be more properly

determined by the court. It is also clear that I must look at not only the individual issues taken in isolation but also consider the cumulative effects of the issues taken together.

- 26 Regarding how to consider the various issues, Mr Justice Warren said (at paragraph 55), in endorsing an approach that had been proposed to him by one of the parties:

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.”

- 27 Also relevant is the situation when a plea of estoppel is raised by one of the parties. This is addressed in paragraph 22 of the judgment in *Yeda Research and Development v Rhone-Poulenc Rorer* [2007] UKHL 43. In an entitlement dispute, Hoffman LJ states that there was no justification “to import questions of whether one claimant has some personal cause of action against the other.” He goes on to say:

“Mr Prescott said that such an approach leaves no room for a defence on the ground that an order for transfer of the patent would be inequitable on the ground that, for example, the claimant stood by and allowed the registered proprietor to invest money in, as Jacob LJ said in the Court of Appeal, “the risky and expensive development work to bring [the product] to market.” But I do not think that is right. There is no reason why the equitable rules of proprietary estoppel should not apply to a patent in the same way as to any other property. The powers of the comptroller are

expressed in terms wide enough to enable him to give effect to such a defence and if he thinks it would be more appropriate for them to be considered by the court, he may transfer the proceedings under section 37(8).”

The submissions of Alteristic

The applicable principles

28 Mr Turner started by reminding me of the general principles I should apply in coming to my decision on whether the comptroller should decline to deal with the reference. It was necessary to determine whether the question would more properly be determined by the court by taking into account the cumulative effect of the issues raised and he drew my attention to the Office decision in *Northern Light Music Ltd v Conversor Products Ltd* (BL O/296/07 citing *Luxim v Ceravision* [2007] RPC 33 at paragraph 87 (quoted at paragraph 10 of this decision). In particular, he argued that the question was more properly determined by the Court if:

(a) it raised factual and legal issues of a kind not normally addressed by the Office, such issues of equity; and/or

(b) technical issues that were of secondary or no significance in determining the question: see *Northern Light* at paragraphs 73, 77, 82, 89, 91, and *Yeda Research and Development v Rhone-Poulenc Rorer* [2007] UKHL 43 at paragraph 22.

Application of the principles to this reference

Technical issues

29 Mr Turner accepted that the reference did not raise any technical issues.

Factual and non-patent legal issues

30 Mr Turner argued that, in his view, although the legal basis of Reflex’s attack on the Assignment was far from clear, the evidence appeared to raise the following, amongst other, factual and legal issues:

(a) Issues of company law: there was a question over whether the appointment of Ms McDougall as a director of Reflex by Mr Taylor (as sole surviving director) was valid, having regard to the articles of association of Reflex and applicable company law. There was also uncertainty over the exact status of another director and an apparent inconsistency in relation to the Companies House records. Were the directors of Reflex under any obligation to call a general meeting or otherwise consult with all shareholders prior to entering into the Assignment? In addition, there was a question mark who owned what shares in Reflex at the time of the appointment of Ms McDougall and the Assignment.

(b) Issues of the law of probate: was Mr Taylor right to consider that under the will of Mr Smith he was entitled to exercise a majority of the voting rights in

Reflex and that a properly conducted general meeting (had it been necessary) would have approved the appointment of Ms McDougall and the assignment?

- (c) Value of the patent: it was at issue whether BACA Na, represented by Susan Todd, had made a genuine and realistic offer to purchase a company exploiting the Patent in 2001 for £10 million. In addition, there was the issue of whether the directors of Reflex at the time of the assignment reasonably believed that there was no real prospect of selling the Patent to BACA Na or any other party for £10 million or other consideration substantially exceeding the consideration given by Alteristic.
- (d) Legal advice: There was an issue of whether Rosenblatt, solicitors, advised Mr Taylor or Mr Prongue that the transfer of the Patent from Reflex to Alteristic on the terms of the Assignment was proper; and, if so, whether there was any material deficiency in the information on which that advice was given.
- (e) Liabilities: There was also a dispute over the extent of the liabilities accepted in the assignment. In particular, did Alteristic know what it was letting itself in for? Mr Turner argued that the liabilities were actually much greater than the Companies House fine for the late filing of the accounts although he could not put a figure on it. There was also the issue of whether the shareholders of Reflex would have been willing and able to provide the funds required to enable the company to meet its obligations and to maintain the patent if it were not for the assignment.
- (f) Fiduciary duty: a further issue was whether the directors of Reflex breached any fiduciary duties in entering into the assignment; and, if so, whether the officers of Alteristic were or should have been aware of the breach. In particular, should Mr Taylor as director of Reflex have taken into account his position as a director and shareholder of PAMM (the company exploiting the patent) or should he have considered Reflex's interests in isolation? PAMM at the general meeting had rejected the offer from BACA Na and Mr Taylor took the view that PAMM was in so much debt that it could not do anything. Mr Turner suggested that if it could be shown that without PAMM, Reflex had an asset (the patent) with no real value, its transfer in return for relieving some modest obligations might appear to be a very reasonable transaction.
- (g) Execution of the assignment: an issue was whether the assignment was deemed to have been duly executed by virtue of s.36A(6) of the Companies Act 1985 (as inserted by s.130(2) of the Companies Act 1989), which provided that

"In favour of a purchaser a document shall be deemed to have been duly executed by a company if it purports to be signed by a director and the secretary of the company, or by two directors of the company, and, where it makes it clear on its face that it is intended by the person or persons making it to be a deed, to have been delivered upon its being executed.

“A ‘purchaser’ means a purchaser in good faith for valuable consideration and includes a lessee, mortgagee or other person who for valuable consideration acquires an interest in property.”

(h) Equity: In Mr Turner’s view, there was an issue over whether Reflex had acquiesced in Alteristic’s expenditure of effort and money in developing the patented product. If that were the case, he argued that it was now inequitable for Reflex to deny Alteristic’s ownership and they should be estopped from doing so. There was also the issue of whether the shareholders of Reflex were professionally advised that the cost of challenging Alteristic’s ownership of the patent would be prohibitive and whether this excused it not having done so from 2001 until 2007.

31 Mr Turner also argued that whether and how the parties were represented was irrelevant to the assessment of whether the question would more properly be determined by the court. However, if such considerations were relevant, in his view they favoured the question being determined by the court. He made the point that if the claimant had a good arguable case, it would be able to obtain representation in the court under a conditional fee arrangement and to obtain insurance against its exposure to costs. There was therefore no risk of injustice to Reflex if the matter proceeded in the court. On the other hand, if (as Alteristic believed), the claim lacked merit, the defendant was likely to sustain costs which would not be fully recoverable if the reference were to be retained in the Office.

32 Mr Turner agreed that there were many disputes regarding entitlement which were to do with who invented what and those were things that were appropriate to be dealt with in the Office. There were also a very large number of cases on whether something was done in the course of employment or not and one would normally anticipate that those cases would be in the Office. However where the issues went to breaches of fiduciary duty, company law and trust law, and allegations of fraud, he considered that the comptroller should seriously consider declining to deal.

33 Finally, Mr Turner reminded me that, in the light of matters which had come to light in the evidence, an action for infringement of the patent had been launched in the Patents County Court against Reflex and others. One of the questions which would be relevant in those proceedings would clearly be whether Alteristic was the true owner of the Patent. The existence of these parallel proceedings, coupled with the fact that others, not being party to the action before the comptroller, were involved, made it strongly desirable that all the questions should be heard together in the same court. Moreover, given the nature of the issues which were in his view unfamiliar to the comptroller, proceedings would, in Mr Turner’s submission, be likely to proceed more smoothly and quickly in the Patents County Court than they would before the comptroller.

34 In summary, Mr Turner argued that taking these issues into account individually and cumulatively, the question raised in this reference would more properly be determined by the Court.

The submissions of Reflex

- 35 Mr Stobart's starting point was his strongly-held view that the comptroller was the correct authority to make this decision on patent ownership. He maintained that the question to be decided in this case was simple: was the assignment of the patent from Reflex to Alteristic valid? He agreed that this case did not raise any technical questions relating to the detail of the patent.
- 36 Addressing the issues raised by Alteristic, he did not see it was necessary to discuss the validity of the appointment of Ms McDougall as director. If the assignment had been appropriate, he argued that it could have been undertaken by a single director and there were already two listed directors of the company. He did not see there was a need to prove whether it was appropriate to call an emergency general meeting to conduct an assignment according to the articles of association, because this was not ordinary company business. The effect of the assignment was to remove the only asset of the company and therefore in essence was winding up the company; as such, it would have been appropriate to call an EGM of the shareholders.
- 37 Mr Stobart accepted that during the period that Robert Taylor and Michael Smith had control of the company, there was share movement that was unaccounted for. However, he thought that it was probably not necessary for these proceedings to resolve the exact shareholding. He suggested it might be more appropriate to accept the shareholding recording at Companies House at the time of the assignment as he thought it might never be possible to arrive at a definite answer. However, following Mr Smith's death, he did not accept that Mr Taylor ought to be regarded as having a controlling shareholding by virtue of Mr Smith's will, because it was clear that his (Mr Smith's) shares, or the voting rights relating to them, could not be transferred prior to the grant of probate.
- 38 Mr Stobart did not consider it was necessary to prove the value or validity of the BACA Na offer. In his view, all Reflex needed to show was that the value of the patent was greater than the costs that were paid by Alteristic. The only liability accepted by Alteristic in the assignment was the payment of £1250 in respect of the fine imposed by Companies House for late submission of the accounts. He argued that the cost of striking off a non-trading company would have been negligible.
- 39 Mr Stobart accepted that Mr Taylor's frame of mind at the time of the assignment did have a bearing, and Reflex would contest the view that he thought the offer was not genuine. In any case, whether Mr Taylor believed the offer was genuine or not, he had a duty to act in the interests of the company and not his own: at the very least he had a responsibility to discuss the future of the company with its shareholders. Commenting on Mr Taylor's letter to Rosenblatt solicitors, in which he outlined his intentions and stated that he intended to hold an EGM of the company, Mr Stobart argued that Rosenblatt may well have agreed that this was the correct course of action, but as Mr Taylor did not do this, whether they advised him appropriately or not had little bearing on the legality of the assignment.
- 40 Mr Stobart argued that as Mr Taylor had orchestrated the removal of Mr Smith as director of PAMM, he (Mr Taylor) could have been confident that Mr Smith would have met with the shareholders of Reflex and discussed the approach by BACA

Na. It therefore seemed very unlikely that the shareholders would not have been prepared to meet the obligations of the company. In other words, Mr Taylor would have been fully aware that the other shareholders in the company would have been quite prepared to pay the company's liabilities and continue on with the company.

- 41 In Mr Stobart's view, Mr Taylor had acted without due diligence in assigning the only asset of the company to Alteristic. He went on to assert that the fact that Mr Prongue and Mr Griffett were both directors of PAMM as well as of Alteristic would have meant that they were likely to be aware of this breach of duties. Mr Stobart considered that Mr Prongue and Mr Griffett were culpable because they were aware of the BACA Na offer and Mr Prongue had been in contact with Ms Todd on behalf of PAMM.
- 42 Mr Stobart considered that whether the assignment was duly executed under the Companies Act was irrelevant if the assignment itself was an act of fraud against Reflex.
- 43 On the issue of acquiescence, Mr Stobart thought it was difficult to see what Reflex could have done differently in the circumstances. Looking at it from the point of view of Reflex and of himself as the inventor, he had spent around 20 years trying to develop and market a safe, practical product. He thought it unconscionable that he should be prevented from marketing it when he had acted in good faith at all times. He disputed Mr Turner's argument that Reflex had stood by while Alteristic spent money developing the product. He said that Alteristic had not in fact developed the new technology and were still selling the PAMM unit which had changed very little over the last 10 years. In contrast, Reflex's product was entirely new and different.
- 44 Mr Stobart agreed that it might look odd that Reflex had, on its own evidence, just gone ahead and made a product expecting Alteristic to take it to court as Reflex did not have the money to sue Alteristic. Having done some more research, he had found that Reflex could in fact represent themselves in the Office and that is why these proceedings were started. Reflex was also concerned that they might be statute barred if they did not make an attempt now to get a judgment. Mr Stobart forcefully made the point that Reflex were not trying to hoodwink people by developing their own product, neither were their suppliers: the trading relationship was completely above board. Reflex had never wanted to prevent Alteristic from marketing their product. It was in both sides' interest to gain wider acceptance of the treatment and in the interest of patients. All he wanted was a fair judgment that allowed both companies to continue and, also if possible, to allow the shareholders of Reflex who lost so much to get something back on their investment.
- 45 He contended that whether the period between the date of the assignment and the start of these proceedings was an issue was something the Office could rule on. He explained that, at the time of the assignment, the shareholders, who were private individuals, did not have the funding to mount a legal contest. Even if they had succeeded, BACA Na had withdrawn the offer to PAMM so Reflex would have been left with the intellectual property but no tangible product. Rather than challenge the assignment, Reflex had therefore decided to develop

its own product. Only after five years of development did they consider they had something for which it was worth fighting to get the patent back.

- 46 Mr Stobart disagreed that the case involved complex legal issues. In his view the issue was simple: did Mr Taylor knowingly defraud Reflex and his fellow shareholders, and was Alteristic an innocent party? He did not think that these proceedings were on a par with *Northern Light* which involved multiple assignments and involved a lot of different threads. He drew attention to paragraph 50 of *Luxim*:

In other words, it is the very nature of entitlement proceedings that they will commonly involve matters which form the regular diet of the court; but that is not a reason for saying that such cases are more properly to be determined by the court, otherwise the comptroller's statutory jurisdiction will be unduly curtailed.

- 47 He argued that because this was an entitlement proceeding, it was appropriate that it should continue in the Office because legislation had conferred primary jurisdiction on entitlement issues on the comptroller rather than the court. In his view, this case was the type of day-to-day judgment that the comptroller would be expected to make.

- 48 Mr Stobart did not accept Mr Turner's contention that how the parties were represented was irrelevant to whether the proceedings took place in the court or the Office. He pointed out that the whole procedure before the comptroller was far more geared towards unrepresented litigants, with guidance available by telephone, manuals on the website and informal hearings. In contrast, he had had little success in trying to get guidance from the Patents County Court in connection with the infringement action launched by the defendant. He also expressed concern at the difference in costs between the Office and the court and he explained that these proceedings were only undertaken because costs were based on a tariff. He was also concerned at Reflex's ability to represent itself adequately in the court.

- 49 Mr Stobart was not convinced by the argument that proceedings were likely to take longer in the Office. Given that the current proceedings had been underway for nearly a year, he considered that he would be back to square one if they had to be moved to the court. He also referred to paragraph 39 of *Luxim* where Warren J says:

In that context, he observed correctly I think, that a party's motives for a request to the comptroller to decline to deal may be complex in themselves. The motives could even include matters which veer in the direction of abuse of process, such as desire to delay a conclusion or to make proceedings prohibitively expensive for the other side.

- 50 Mr Stobart argued that it was more efficient to determine the entitlement reference before the comptroller prior to the defendant's action for infringement because the outcome of the former case might lead to the latter action being stopped. If both issues were dealt with in one case, he was concerned things were likely to become bogged down in lengthy technical arguments and because

there was so little time left of the patent term, the claimant would be unlikely to benefit from a judgment before it had expired. He also stated that, should I exercise discretion to decline to deal, it was extremely unlikely that the claimant would pursue these proceedings in court due to lack of funds.

Assessment of the arguments

- 51 I should first address Mr Stobart's general point that the comptroller is the correct forum to determine this reference because the statute has conferred the jurisdiction on him to do so and the questions raised are of a "day-to-day" nature.
- 52 It is true that the statute obliges parties to begin actions under s. 37 before the comptroller, but there is clear provision for such matters to be transferred to the courts if it is appropriate to do so. That is precisely what I have had to decide on, and in doing so I have been obliged to follow the principles established in the precedent cases. Thus, in setting out my assessment of the arguments, I shall refer to the same categorisation of the types of issue as set out in paragraph 55 of the *Luxim* judgment.

Technical issues

- 53 Both parties have accepted that there are no technical issues in this dispute and I agree.

Factual issues

- 54 The main factual issues to be resolved are those revolving around the assignment, and in particular the motivation and state of mind of the key individuals involved. While cross-examination may be needed to test this out, it seems to me that there is not in practice a great measure of conflict between the evidence of the parties as regards the events that actually happened. While I do not dispute Mr Turner's catalogue of everything that could conceivably be unclear in these proceedings, I do not agree that every matter he raised will need to be resolved in order to determine the central question of the assignment. The comptroller is accustomed to resolving evidential conflicts in order to make findings of fact, following cross-examination if necessary, and I do not in principle consider such matters, on their own, to be so complex as to make it more appropriate for the question to be determined by the court.
- 55 However a critical plank of Reflex's case is the allegation of improper conduct on the part of Mr Taylor and his associates. Reflex submits that Mr Taylor acted in breach of his fiduciary duties toward the company and in a manner which was oppressive to minority shareholders. There is also a suggestion that in exercising the voting rights of the deceased Mr Smith, he acted in self-interest and in a manner inconsistent with express provisions of Mr Smith's will. The word "fraud" has been used to describe Mr Taylor's conduct.
- 56 It was explicitly proposed in *Luxim* (paragraph 55, cited above) that one might normally expect it to be more appropriate for a judge to deal with a case if findings of fraud or breach of fiduciary duty are to be found against a party or a witness. Here, Mr Taylor himself is not, perhaps surprisingly, a witness, although

he does apparently remain a majority shareholder in Reflex. This is in my opinion an issue of such complexity as to mean that it would be more appropriately dealt with in the court.

Non-patent law

- 57 A key matter concerns control of the company and the exercise of voting rights shortly before and at the time of the assignment. Resolution of these questions will require reference to company law and the law of probate. Such questions in respect of company law at least arise not infrequently in disputes over patent ownership and the comptroller is accustomed to dealing with them. Matters of probate and inheritance law are perhaps less commonly encountered, but I consider that the questions of law here need not be inherently complex once the key facts are established.
- 58 Regarding the plea of estoppel by acquiescence, this situation is similar to that addressed by Lord Hoffman in *Yeda* in which it was quite clear that such a plea is in itself not an absolute bar to consideration by the Comptroller.

Proceedings in the Patents County Court

- 59 It is true that if the comptroller were to resolve the question of ownership under s. 37 in favour of Reflex, the proceedings for infringement would fall away. However, it is my understanding that disputed ownership is effectively the only defence to the action for infringement, so given that the parties have already prepared their cases, little extra work would be involved if the question were to be transferred. But if the comptroller were to keep the case and resolve the ownership in favour of Alteristic, the question of infringement would still need to be considered in the County Court and the result would only have been delay and complication. On this point, the balance seems to fall quite clearly on the side of transfer.

Representation of the parties

- 60 Reflex has no professional representation and Alteristic does, and Mr Stobart felt that this could place Reflex at a relatively greater disadvantage before the court than would be so before the comptroller. A subsidiary point is possible exposure to costs, and the fact that in proceedings before the comptroller litigants of limited means can have some degree of confidence over the maximum costs they may be called upon to pay in the event that they lose.
- 61 I believe that these are factors that can be taken into consideration to the extent that a decision on a question of decline to deal may have the consequence of denying a party genuine access to justice. In the present case, as I have already commented, there are already parallel proceedings under way in another court and much of the preparatory work has already been done. Moreover, there are ways in which Reflex could have access to professional advice at modest cost, and some of these were mentioned at the hearing.
- 62 Regarding the question of exposure to full costs in the court, I would observe that Reflex and Mr Stobart (and his associate) had effectively already taken on that

risk when they started developing a product based on the patent in the expectation that Alteristic would be provoked into bringing proceedings against them.

- 63 In these circumstances I do not believe that the issues of representation and exposure to costs have a great bearing on the present question.

Conclusion

- 64 Although I consider that certain of the questions of law and evidentiary issues raised are quite within the ambit of matters that it would be appropriate for the comptroller to handle, the presence of allegations of improper conduct, breach of fiduciary duty and even fraud, coupled with the parallel proceedings in the Patents County Court have led me to conclude that, overall, the question referred to me is one which would more properly be determined by the court.

General remarks

- 65 By his own admission, Mr Stobart had no previous experience of any kind of litigation. I would like to take this opportunity to compliment him on the dignified and clear way in which he presented his case. I am confident that I have fully understood and taken into consideration all the points he made.

Costs

- 66 At the hearing, I gave the parties the opportunity to make written submissions on costs, which they duly did. My written decision on costs (BL O/051/08) disposed of this matter.

Seeking the court's determination

- 67 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 decision. This period has now passed.

Appeal

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

A C HOWARD
Divisional Director acting for the Comptroller