

**PATENTS ACT 1977**

BETWEEN

Neil Eric Paxman

Applicant

and

Derek Hughes

Respondent

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PROCEEDINGS

Reference under section 37(1)(c) of the Patents Act 1977 in  
respect of patent N<sup>o</sup> EP(UK) 1 048 609 B1

HEARING OFFICER     Stephen Probert

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**DECISION**

**Background**

- 1 Neil Paxman and Derek Hughes are registered co-proprietors of a patent — EP(UK) 1 048 609 B1 — relating to an apparatus (the “Trimcooler”) for cooling drinks. Unfortunately, they fell out before they were able to exploit the invention to the fullest extent. One of the consequences of section 36(3) in this case is that Mr Paxman is not permitted to grant licences under the patent without Mr Hughes’ consent. Mr Hughes does not consent. In this reference, Mr Paxman is essentially asking the Comptroller to remove this particular restriction imposed on co-proprietors by section 36(3).
- 2 This dispute has already come before the Patents Court and the Court of Appeal in relation to a number of preliminary issues. As a result, the background has been set out in detail by Kitchin J in paragraphs 7-26 of his judgment <sup>1</sup>, and subsequently summarised by Jacob LJ at paragraph 3 of the Court of Appeal’s judgment <sup>2</sup>.
- 3 In this case, the Court of Appeal has already confirmed that the Comptroller has jurisdiction under section 37(1) to order that licences under the patent be granted. The question that remains to be decided, now that the parties have had an opportunity to submit evidence, is whether in all the circumstances it

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<sup>1</sup> Derek Hughes v Neil Paxman [2005] EWHC 2240 (Pat)

<sup>2</sup> Derek Hughes v Neil Paxman [2006] EWCA Civ 818

would be proper for the Comptroller to grant a licence (or the power to licence) as requested by Mr Paxman<sup>3</sup>. The specific orders sought by Mr Paxman are reproduced at annex A to this decision. Neither Mr Paxman nor Mr Hughes wanted to make oral submissions at a hearing; at their request I am making this decision on the basis of the papers on the official file.

## **The Law**

- 4 The statutory provisions in the Act that concern the rights of co-proprietors start with section 36, the relevant parts of which read:

### **Co-ownership of patents and applications for patents**

36.-(1) Where a patent is granted to two or more persons, each of them shall, subject to any agreement to the contrary, be entitled to an equal undivided share in the patent.

(2) Where two or more persons are proprietors of a patent, then, subject to the provisions of this section and subject to any agreement to the contrary -

(a) each of them shall be entitled, by himself or his agents, to do in respect of the invention concerned, for his own benefit and without the consent of or the need to account to the other or others, any act which would apart from this subsection and section 55 below, amount to an infringement of the patent concerned; and

(b) any such act shall not amount to an infringement of the patent concerned.

(3) Subject to the provisions of sections 8 and 12 above and section 37 below and to any agreement for the time being in force, where two or more persons are proprietors of a patent one of them shall not without the consent of the other or others -

(a) amend the specification of the patent or apply for such an amendment to be allowed or for the patent to be revoked, or

(b) grant a licence under the patent or assign or mortgage a share in the patent or in Scotland cause or permit security to be granted over it.

- 5 Subsection (3) is subject to the provisions of sections 8, 12 and 37. Sections 8 and 12 apply before a patent has been granted. In this case, the patent has already been granted, and therefore section 37 is relevant. It begins:

### **Determination of right to patent after grant**

37.-(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.

(2) Without prejudice to the generality of subsection (1) above, an order under that subsection may contain provision -

(a) directing that the person by whom the reference is made under that subsection shall be included (whether or not to the exclusion of any other person) among the persons registered as proprietors of the patent;

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<sup>3</sup> This question was envisaged in paragraph 28 of my earlier decision - BL O/143/05.

- (b) directing the registration of a transaction, instrument or event by virtue of which that person has acquired any right in or under the patent;
- (c) granting any licence or other right in or under the patent;
- (d) directing the proprietor of the patent or any person having any right in or under the patent to do anything specified in the order as necessary to carry out the other provisions of the order.

6 When this case came before the Court of Appeal, Lord Justice Jacob summed up the effect of section 36(3) on the circumstances of this case in this way:

“7. So, absent any agreement, any co-proprietor can exploit the patent himself or by his agents but he cannot sub-licence a third party. “By his agents” has a wide meaning covering any “home use” – see *Henry Bros v MoD* [1997] RPC 693 at 709 (Jacob J) and [1999] RPC 442 at p.450 (*per* Robert Walker LJ). But it does not include simply licensing the patent to a third party, which is what Mr Paxman seeks here.

8. This default position can obviously produce very different commercial situations for co-proprietors. For instance one may be an individual with no manufacturing capacity or capital whereas the other may be a formidable industrial empire. In such a case the latter co-proprietor could happily exploit whereas the former could not. In another scenario neither co-proprietor may have the wherewithal to exploit the patent. Unless they can agree there will be deadlock – with the practical consequence that the patent cannot be exploited at all.”

7 On the subject of deadlock, Jacob LJ went on to say (para 13):

“... I cannot imagine for a moment that Parliament could have intended it to be possible that exploitation of an invention could be frustrated by a deadlock situation. The whole point of the patent system was and is to encourage innovation and the exploitation of inventions. That is indeed why, where patented inventions have not been exploited, subject to certain conditions, there is provision for compulsory licences.”

8 So it is now settled that the Comptroller can order that licences under the patent be granted ***if he considers that there is a deadlock situation***. The Court of Appeal also confirmed that the discretion conferred upon the Comptroller in such situations is a wide one, (see eg. paragraphs 26-29), and that the Comptroller must “act rationally, fairly and proportionately and have regard to all the circumstances of the case”. The Comptroller’s aim, again as stated by the Court of Appeal, will be “to produce a fair and commercial solution when co-owners cannot agree”. (See paragraph 29.)

9 My task therefore can be split into two stages:

- i) Is there a deadlock situation? If so, then;
- ii) Having regard to all the circumstances of the case, do any/all of the orders that Mr Paxman seeks represent a fair and commercial solution?

## The Evidence

- 10 Both parties have filed evidence in these proceedings. I can review it fairly briefly. The majority of it is first-hand evidence from Mr Paxman and Mr Hughes and it deals with the history between them. Early in 2003, they set up a company together, Trim Cool Ltd, to market the invention. But the relationship between the two men appears to have deteriorated in the first half of 2004, with solicitors becoming involved in the summer of 2004. One of the major areas of dispute between Mr Paxman and Mr Hughes concerns the precise nature of any agreement between them regarding exploitation of the invention. Mr Hughes maintains that they agreed that his company, VM Fabrications Ltd (“VMF”), would manufacture all the products made under the patent. Mr Paxman says that it was only agreed that Mr Hughes would pay the patent costs and that any sales of prototypes would be invoiced by VMF having been manufactured by Mr Paxman personally using VMF facilities. Beyond this, Mr Paxman says that there is no written or verbal contract between himself and Mr Hughes. More particularly, Mr Paxman says that it was always understood (though never formalised in a written contract) that it would not be feasible for VMF to produce the Trimcooler in bulk.
- 11 Mr Hughes also filed evidence in the form of witness statements from Chris Buckley, Brian Cooper, Mike Brook, Diane Shaw, Thomas Bellis and Stephen Oscroft. These witness statements provide further insight into the relationship between Mr Paxman and Mr Hughes. From all the evidence that I have seen in these proceedings, I am not left in any doubt that Mr Paxman and Mr Hughes have fallen out, and that the breakdown in the relationship between them has prevented full exploitation of the patent.
- 12 There is, however, one very relevant fact that is (eventually) agreed by Mr Paxman and Mr Hughes. Since the breakdown in the relationship between them, Mr Paxman and Mr Hughes have cooperated with each in order to agree a deal with Coors Brewers Ltd.; a deal that generated half a million pounds for them, and that was divided equally between them.
- 13 In his amended statement of grounds <sup>4</sup>, Mr Paxman says that he has never received any income or royalty in relation to the products. However, Mr Hughes says that both parties received £250,000 each (less tax) in respect of 5,000 units manufactured by Coors Brewers Ltd. Responding to this subsequently in his evidence, Mr Paxman concedes that he did receive £250,000 (less tax) from the Coors deal, but adds that most of it has been spent on legal fees fighting for his patent rights. Clearly this is not a satisfactory explanation for Mr Paxman’s previous statement that he has never received any income in relation to the products. The fact that he appears to think it is, is worrying, and inevitably raises doubt in my mind as to other statements made by Mr Paxman.
- 14 Mr Hughes says that he agreed to the Coors deal because he had spent so much money defending his legal position in relation to this patent that he needed the money. He says that he signed the Coors agreement “reluctantly” because it contained a caveat to the effect that the first 5,000 units would be

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<sup>4</sup> ‘Verified’ by a statement of truth as required by Tribunal Practice Notice (TPN) 6/2007.

produced by a company associated with Mr Paxman's brother. But the fact remains that, however difficult the relationship between Mr Paxman and Mr Hughes, they can cooperate when they want to - eg. when they need money to pay their legal fees. While this is not the most profitable business model, it does indicate that there is not a true deadlock situation in this case.

- 15 I also note that Mr Hughes says that the Coors agreement refers to the "first 5,000 units", suggesting that there may be ongoing sales. All I know from the evidence is that the parties each received £250,000 (less tax) from the sales of the first 5,000 units. Mr Hughes, in his evidence, specifically says "There is no deadlock, ...", and adds that both Coors and VMF are manufacturing units generating (between them) a turnover in excess of a million pounds.
- 16 I have therefore concluded, on the first question, that the circumstances in this case do not amount to a deadlock situation. The relationship between the co-owners is not a happy one, but the evidence (particularly the Coors deal) tells me that it falls significantly short of "deadlock". Moreover, the evidence does not indicate that the need for consent required by section 36(3) has produced "very different commercial situations" for the co-proprietors in this case.
- 17 I did wonder whether the relationship between the co-proprietors has deteriorated to the extent that the Comptroller should nonetheless order that licences under the patent be granted. I have concluded that he should not. To do so would be to go beyond the jurisdiction that has been recognised by the court, and I do not think that it would be right to do so in this case, not least because I have not had the benefit of submissions on the point. I note that section 36(3) requires consent between co-proprietors before certain acts can take place. The Court of Appeal has said that the Comptroller has the power (on the application of one co-proprietor) to dispense with the requirement for consent in the event of a deadlock situation, but it is a wholly different matter to remove the requirement for consent simply because one of the co-proprietors withholds consent. It seems to me that if the Comptroller were to order licences under a patent merely because one co-proprietor withholds consent, section 36(3) would be largely meaningless. There must be a deadlock situation, and there is not one in this case.

### **Conclusion**

- 18 As I have decided, on the evidence available to me, that there is not a deadlock situation in this case, it follows from the above that I should not make any order as to licences under the patent. In the circumstances there is no need for me to decide whether any or all of the orders sought by Mr Paxman would have represented a fair and commercial solution.

### **Costs**

- 19 Both parties have requested an award of costs. In the event, Mr Paxman's reference under section 37 has failed, and therefore Mr Hughes is entitled to an award of costs. It is long-established practice for costs awarded in proceedings before the Comptroller to be guided by a standard published scale. The scale costs are not intended to compensate parties for the expense to which they may have been put, but merely represent a contribution to that

expense. This policy reflects the fact that the Comptroller ought to be a low cost tribunal for litigants, and builds in a degree of predictability as to how much proceedings before the Comptroller may cost them.

- 20 The standard scale for proceedings commenced before 3 December 2007 is set out in Annex A of Tribunal Practice Notice (TPN) 2/2000. In accordance with the scale, **I order Mr Paxman to pay Mr Hughes the sum of £2,100 as a contribution to his costs.** This sum should be paid within 7 days of the expiry of the appeal period below. Payment may be suspended in the event of an appeal.

### **Appeal**

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

**S PROBERT**

Deputy Director acting for the Comptroller

## Annex A

### ORDERS SOUGHT

An Order permitting the Applicant:

- a. to manufacture the Products or to have the Products manufactured for him and supplied to him in the United Kingdom; and
- b. to import, promote, offer for sale or hire, sell or hire, supply, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.

An Order permitting the applicant to exploit the Patent through a company set up by the Applicant to exploit the Patent of which he is the only shareholder and/or of which he is majority shareholder to the effect that such company may:

- a. manufacture the Products or have the Products manufactured for it and supplied to it in the United Kingdom; and
- b. import, promote, offer for sale or hire, sell or hire, supply, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.

An Order permitting the applicant to grant to a company set up by the Applicant to exploit the Patent of which he is the only shareholder and/or of which he is majority shareholder a licence to the effect that such company may:

- a. manufacture the Products or have the Products manufactured for it and supplied to it in the United Kingdom; and
- b. import, promote, offer for sale or hire, sell or hire, supply, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.

An Order permitting the applicant to licence Brewfitt to manufacture the Products or have the Products manufactured for it and supplied to it in the United Kingdom, and to import, promote, offer for sale or hire, sell or hire, supply, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.

The right to be able to grant a licence requested by the Applicant above and taking into account the matters referred to in paragraph 46<sup>5</sup> above is as follows

- a. the licence is to be in respect of the Patent and to exploit the Patent in the United Kingdom as set out below;
- b. the licence will be non exclusive as the outcome of this reference may be that Hughes is also permitted to grant similar licences;
- c. the rights granted in the licence will be to have the Products manufactured and supplied in the United Kingdom and to import, promote, offer for sale or hire, sell or hire, supply, deliver, install and maintain the Products in the United Kingdom or otherwise to do any act set out in section 60(1) and/or section 60(2) of the Patents Act 1977 in relation thereto.
- d. no payment will be required to be made by the Applicant or the licensee to Hughes and the Applicant and the licensee will not be required to account to Hughes in respect of any of the activities which are permitted to be licensed;
- e. the licence may be granted for the remainder of the term that the Patent can be renewed or for a shorter period.

Such further or other Order or Orders as the Comptroller may decide.

An Order that Hughes pays the costs of this Application.

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<sup>5</sup> This is paragraph 46 from Mr Paxman's statement of grounds.