



Neutral Citation Number: [2023] EWCA Civ 451

Case No: CA-2022-01728 and CA-2022-001759

**IN THE COURT OF APPEAL (CIVIL DIVISION)**  
**ON APPEAL FROM THE HIGH COURT OF JUSTICE**  
**BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES**  
**INTELLECTUAL PROPERTY LIST**  
**MRS JUSTICE FALK [2022] EWHC 1707 (Ch)**  
**HP-2020-000039**

Royal Courts of Justice  
Strand, London, WC2A 2LL

Date: 26/04/2023

**Before :**

**LORD JUSTICE ARNOLD**  
**LORD JUSTICE NUGEE**  
and  
**LORD JUSTICE BIRSS**

**Between :**

**Adaptive Spectrum and Signal Alignment Inc**  
**- and -**  
**British Telecommunications PLC**

**Appellant**  
**Respondent**

**James Segan KC, Luka Krsljanin** (instructed by **Kirkland and Ellis International LLP**) for  
the **Appellant**  
**Nicholas Saunders KC, Gideon Shirazi** (instructed by **Bird & Bird LLP**) for the **Respondent**

Hearing dates: 29 March 2023

**Approved Judgment**

This judgment was handed down remotely at 10.30am on [date] by circulation to the parties  
or their representatives by e-mail and by release to the National Archives.

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**Lord Justice Birss:**

1. This appeal concerns the construction of a contract between Adaptive Spectrum and Signal Alignment Inc (ASSIA) and British Telecommunications Plc (BT) to settle a number of international patent disputes concerning home broadband internet connection technology. Amongst other things the settlement terms involve each side granting a patent licence to the other. The issue is about the scope of the licence granted by ASSIA to BT and whether a service offered by BT called VULA is licensed or not. ASSIA contends that VULA is not licensed within the relevant terms whereas BT contends that it is. At trial Falk J decided ([2022] EWHC 1707 (Ch)) that VULA was within the scope of the licence. ASSIA appeals with the permission of this court.
2. As I will explain below, I conclude that VULA is licensed under the patent licence and so the appeal should be dismissed.

*Background*

3. ASSIA holds a number of patents in the field of digital subscriber line (DSL) technology, which enables copper wires originally used for voice telephony to deliver broadband internet access. ASSIA offers licences of its DSL technology to a number of communication service providers (“Service Providers”) such as Sky and Talk Talk.
4. BT owns most of the copper telephone wires in the UK and sells access to them to Service Providers, along with other, more extensive services. The Service Providers, in turn, supply services to their own customers (or “end users”). The end users’ premises may be connected to local exchanges either entirely via copper wires or only partially, in which case the copper line covers the distance between the premises and the relevant street cabinet, with the remaining distance being covered by optical fibre. A modem is required at each end of the copper line. In this judgment I will refer to the modem at the end users’ premises as a Customer Modem. The Customer Modem can be provided either in the same box as the router which controls the home wifi network or separately from it. If provided in the same box, the Customer Modem is typically provided by the Service Provider with whom the customer contracts; if provided separately, it is not invariably so. The modem at the exchange or street cabinet end is part of a piece of equipment known as the Digital Subscriber Line Access Multiplexer (DSLAM).
5. In the papers for the case the parties used the abbreviations CP (for communications providers) and CPE (for customer premises equipment). I found those two abbreviation confusing and have used Service Providers and Customer Modem instead. They mean the same things respectively.
6. Performance of the DSL line is monitored using “Dynamic” line management technology, which improves efficiency on the copper line. Before May 2022, part of ASSIA’s business was to provide line management technology to Service Providers. That technology is covered by ASSIA’s patents. BT has its own line management controllers, known as Rate Adaptive Monitoring Boxes (RAMBos).
7. One kind of service offered by BT is called a Metallic Path Facility. Here BT provides the Service Provider with access to the relevant copper wire, and space in the exchange/street cabinet for the Service Provider to put equipment. The Service

Provider installs its own DSLAM in the cabinet and provides a Customer Modem at the end user's premises. The Service Provider is responsible for any line management technology. It could, for example, buy in that technology from ASSIA.

8. VULA is a variant of this approach. VULA stands for Virtual Unbundled Local Access, but nothing turns on these terms. As the judge found (at [66]), VULA is a data connection. It includes (1) the fibre connection between the exchange and the street cabinet; (2) the DSLAM; and (3) the copper wires between the cabinet and the end user's premises. One thing BT does not provide with VULA is the Customer Modem. That would usually come from the Service Provider. Also part of the VULA service is an Ethernet layer connection to the end user's premises.
9. Thus using VULA a Service Provider will be able to offer an end user an internet connection at their home. However VULA alone is not enough. An internet access service has many more components, which the Service Provider would need to provide too. Although without the data connection such as the one provided by VULA it would be impossible for the end user to access the internet, considerably more is also required.
10. The section of line covered by VULA is under BT's sole control. Therefore the Service Provider has no control of the relevant DSLAM and no ability to apply its own line management technology. BT both owns and operates the relevant DSLAMs, using its RAMBos to monitor performance of the DSL line. As a consequence, in this set up ASSIA has no opportunity to sell its line management technology to the Service Provider.
11. Service Providers have increasingly opted for VULA. This has reduced the extent to which they have been responsible for providing any line management themselves and has, in turn, reduced the take up of line management technology from ASSIA (see judgment [27]-[31]).
12. There was litigation in multiple jurisdictions between ASSIA and BT relating to infringement of ASSIA's patents by BT and vice versa, including in this jurisdiction. In 2015, they started settlement discussions and ultimately entered into two agreements on 27 July 2015, namely a "Licence Agreement" and a "Settlement Agreement", both of which are expressly governed by English law. The two documents cross-refer to one another and in effect amount to a single contract. They contain cross-licences for one party to the other in respect of each party's relevant patents within a certain, party specific, field of use. The parties also agreed to discontinue all the various proceedings. One of the proceedings expressly mentioned (at recital I to the Settlement Agreement) and which was in fact discontinued, was a claim in this jurisdiction issued by BT in March 2015 for a declaration that VULA did not infringe the relevant ASSIA patent.
13. The relevant licence in this case is from ASSIA to BT. It is clause 3. By clause 3.1 ASSIA grants BT and its group a "... Non-Exclusive perpetual and irrevocable, royalty free and fully paid up licence to the ASSIA Patents to practice and undertake any of and all of the rights granted a patent owner under Patents Act 1977...with respect to the BT Field of Use in the Territory." The capitalised expressions are defined in the contract but nothing turns on the details of those definitions. The Territory is worldwide.

14. By clause 3.2 BT is not entitled to sub-license anyone under the licence apart from other BT group companies and related parties. This clause does not give BT the right to sub-license independent Service Providers like Sky or Talk Talk.
15. The clause on which attention falls in this case is clause 10.1 of the Licence Agreement, as follows:

**“10. CLARIFICATION REGARDING PATENT LAUNDERING**

10.1 The Parties understand and acknowledge that the licenses and covenants not to sue granted hereunder are intended to cover only the products or services or networks of the two Parties to this Agreement, and are not intended to cover manufacturing activities that either Party may undertake on behalf of third parties (patent laundering activities). *Similarly, the licenses granted under this Agreement are not intended to cover products or services provided by the Parties to the extent that such products or services are provided on behalf of a third party and then to the extent that such products or services are provided using materials provided by or on behalf of the third party.* For the avoidance of doubt, this section does not apply to those products or services that fall within the ASSIA Field of Use or the BT Field of Use that are modified, supplemented, or customized for customers in the normal course of business of ASSIA or BT or any of their Group and sold or distributed under a trademark or brand of ASSIA or BT or any of their Group.

10.2 The Parties agree that a purchase of a product or service from a supplier and resale of such product or service in substantially the same form back to the same supplier is not licensed or immune from suit under this Agreement.”

*[emphasis added]*

16. The debate concerns the second sentence of clause 10.1, which I have italicised.

*Legal principles*

17. The law on contractual interpretation was definitively established by the trio of Supreme Court cases on the subject, namely *Rainy Sky SA v Kookmin Bank* [2011] UKSC 50; [2011] 1 WLR 2900, *Arnold v Britton and others* [2015] UKSC 36; [2015] AC 1619 and *Wood v Capita Insurance Services Ltd* [2017] UKSC 24; [2017] AC 1173.
18. There is no need to review these authorities or any others at any length. The guiding principle is that the task of the court is a unitary exercise involving an iterative process to ascertain the objective meaning of the language used by the parties to express their agreement (*Wood v Capita* at [10] per Lord Hodge). Or putting the same thing another way, it is a unitary process to ascertain what a reasonable person with all the background knowledge reasonably available to the parties at the time would have understood the parties to have meant (taken from *Britvic Plc v Britvic Pensions* [2021] EWCA Civ 867 at [29] (per Sir Geoffrey Vos MR).
19. A further aspect is that in this exercise the court can give weight to the implications of rival constructions by reaching a view as to which construction would be more consistent with commercial common sense (*Wood v Capita* at [11] per Lord Hodge),

nevertheless it is important to see that this applies when there actually are rival constructions to consider (see *Britvic*, particularly Coulson LJ at [57] and Nugee LJ at [70]). It is much harder (one might say impossible) to weigh up implications against the meaning of clear language. That is because, as Lord Hodge also pointed out in [11], there is always the possibility that a party might have accepted something which with hindsight did not serve its interest.

20. A different issue, and not relevant in this case, is a situation in which clear language might be overridden because something has just gone wrong with the language (see *Chartbrook Ltd v Persimmon Homes Ltd* [2009] UKHL 38 and also *Investors Compensation Scheme Ltd v West Bromwich Building Society* [1998] 1 WLR 896 at 93D-E about not attributing to the parties an intention which they plainly could not have had).

*The issue*

21. In August 2019, ASSIA became concerned that Sky UK Limited, a Service Provider, might be infringing its patents by providing a broadband service to Sky's customers. The services were in fact provided using BT VULA lines, with Sky providing the Customer Modem to those customers. Sky's response was that it was "retailing BT Openreach's wholesale network" and that it understood BT had licensed all relevant patents from ASSIA. Sky directed ASSIA to BT. ASSIA subsequently commenced the present proceedings.
22. In these proceedings ASSIA seeks a declaration about the scope of the licence the purpose of which is to declare that in particular circumstances VULA is not a service licensed by the agreement. Shorn of irrelevant language the declaration sought is that the licence agreement did not grant BT the right to provide services within ASSIA's patent rights on behalf of any Service Provider to that Service Provider's retail customers, where the Service Provider supplied the Customer Modem to the retail customer.
23. The reference to services provided by BT to the Service Providers' retail customers "*on behalf of*" the Service Provider is a reference to the language in the second sentence of clause 10.1. That clause carves out of the scope of the patent licence services which are "provided by the Parties" (in this case by BT) "to the extent that such ... services are provided on behalf of a third party" (the third party in this case being Sky or another Service Provider) and "then to the extent that such ... services are provided using materials provided by or on behalf of the third party" (i.e. the Customer Modem provided by Sky or another Service Provider).
24. It was common ground before the judge that for ASSIA to succeed, it had to demonstrate that the relevant service was provided by BT to the end user (i.e. the Service Provider's customer). Pausing there, part of the point was that the second sentence of clause 10.1 does not actually spell out the person to whom the relevant services are to be provided. It only refers to those services being provided by one of the parties (BT in this case) and says that they must be provided "*on behalf of*" the Service Provider. Nevertheless it was accepted that logically for a party to provide services "*on behalf of*" a Service Provider, those services must be being provided to some fourth party, in this case the end user.

25. The major point of BT's submissions before the judge was that the service which was being provided to the end user by the Service Provider was different from the service BT provided to the Service Provider. The Service Provider provided an internet access service to the end user whereas what BT did was provide a VULA service to the Service Provider. As BT pointed out and is explained above, the internet access received by an end user has a number of crucial components. The data connection provided by VULA is one of them but it is by no means the only one.
26. The judge found that BT was not providing an internet connection service ([68]). On the contrary the service provided by BT was VULA. Looking at that service, the judge noted that the end user does benefit from VULA, for example as a result of the line management of the copper line linking the premises to the street cabinet giving rise to better internet access. Nevertheless VULA is only part of what is required for the internet connection service, which is what the end user contracted for with the Service Provider and which the end user receives. The judge concluded that BT provided the VULA service to the Service Provider and not to the end user ([70]-[78]).
27. Therefore the service being provided by BT was not being provided to the customer "on behalf of" the Service Provider and so the sentence in clause 10.1 did not carve that service out of the patent licence and ASSIA's claim failed.
28. The judge also held ([102] to [114]) that considerations of business common sense and the relevant context supported BT's case. In particular, as the judge held ([110]), it is clear from the words of the contractual documents that the or at least a purpose of this contract was to settle patent disputes, or as it was put to achieve "patent peace". It is also not in dispute ([109]) that both parties knew when they entered the agreement that BT was offering its VULA service to Service Providers, and that in such cases Service Providers were generally providing Customer Modems to end users.
29. On appeal ASSIA argued that the approach below involved wrongly construing the relevant clause from the perspective of an uninformed end user, in place of the informed reasonable reader (Ground 1); that the conclusion that the VULA service was not provided to end users was wrong (Ground 2); and that the judgment considered and applied considerations of commercial common sense in the absence of any ambiguity in the wording of the clause (Grounds 3 and 4). There had also been a fifth ground of appeal concerning a declaration the court did grant about the scope of BT "Field of Use" but ASSIA accepted that this point stood or fell with the main appeal and so did not need to be considered.
30. BT supported the judgment below, arguing that the judge was right to reject ASSIA's construction in light of the agreements as a whole, the relevant background and commercial common sense, the last of which does not depend on any ambiguity. BT also submitted that the finding that the services were not provided to the end user was a finding of fact, open to the judge on the evidence, and that ASSIA had not advanced sufficient reasons for an appellate court to interfere. BT also argued that on ASSIA's construction which meant VULA was unlicensed, BT would have been in immediate breach of the licence, and the settlement would have failed to achieve its goal of obtaining "patent peace". BT also contended the source of the Customer Modem should not affect the scope of the licence. The expression "breach", which the judge had used, is mildly inaccurate in that it is not a breach of the contract to sell an unlicensed service, but that does not undermine the force of the point being made.

*Assessment*

31. There are a number of points to get out of the way at the beginning. First, to the extent that BT's case involved a submission that the implications of business common sense can taken into account in the absence of rival meanings of the relevant terms of the contract, as I have already explained I do not agree. Therefore I accept the point of principle advanced by ASSIA on Ground 3 and 4, although how it applies to this case is another matter, addressed below.
32. Second, BT submitted that the "services" referred to in the relevant sentence in clause 10.1 always means the same services each time that word appears. I agree. BT also suggested that ASSIA's approach to construction denied that but I did not detect that in ASSIA's case. In other words the construction point is right but it does not help.
33. Third, I do not accept BT's submission that in this case the conclusion below that the VULA services were not provided to the end user (and so not provided by BT on behalf of the Service Provider) is a finding of fact. In making this submission BT's counsel pointed to evidence in witness statements of one of its witnesses at trial in which the witness asserted that BT did not provide its services to the retail customers. However there was equally conclusory evidence in witness statements from an ASSIA witness saying the opposite. The judge (rightly) did not approach this question as a matter for weighing up these opinions. The underlying facts about what is actually taking place were not in dispute and have been summarised above. The point at issue was and is how to characterise those (undisputed) facts within terms of the licence contract properly construed.
34. Fourth, it is also worth noting that the relevant part of clause 10.1 has a second condition to be satisfied too, i.e., that the services are provided using materials provided by the Service Provider. It was accepted by BT that its VULA service requires both the DSLAM in the street cabinet and the Customer Modem to provide the data connection and therefore it is also accepted that the VULA service is indeed provided using materials (the Customer Modem) which had been provided to the end user by the Service Provider. If the end user chose to replace the Customer Modem they had been given by their Service Provider with a different one, then that condition no longer applied, but it did apply while the Service Provider's Customer Modem was in use.
35. A related submission of BT was that the requirement in this part of clause 10.1 that there must be materials provided by the third party was arbitrary, uncommercial and drew an irrational distinction. I doubt this matters but I am not convinced. For one thing, as just explained, BT admits that its VULA service uses the Service Provider's Customer Modem, i.e. the materials provided by the "third party". In other words, arbitrary or not, the condition is satisfied. Moreover it is clear from the final sentence of clause 10.1 that in agreeing the terms the parties were concerned with the origin and branding of goods and services supplied to customers. It seems to me that the requirement in the second sentence of clause 10.1 can be seen as a way to draw a reasonably clear line circumscribing the application of that provision, even if one might speculate that the mischief to which it was directed might apply in wider circumstances.
36. Fifth are the references in the clause to patent laundering. In my judgment nothing turns on this on appeal. The judge addressed it fully and accurately at [84] – [88]. Essentially the point is that the term is (mostly) a US law term. The first sentence of

clause 10.1 is an example of manufacturing activities by a licensee to which a licensor might well object, and which are sometimes called patent laundering. No doubt that is why the clause itself says as much in the brackets at the end of that sentence. It is possible to see how the second sentence, which starts with the words “similarly” sets out to “clarify” that the licence does not permit similar sort of activity in a different context. However in the end no light is shed on the true construction of the second sentence by any similarity it may or may not have to patent laundering, never mind the fact that the ambit of that term itself is also not fixed. So we can ignore patent laundering.

37. Sixth, Ground 1 of the appeal is a submission that the judge construed the contract from the point of view of the end user and was wrong to do so. I reject the premise. The judge’s reasoning simply used the perspective of the end user as a tool for working out how the contract – properly construed – applied in the relevant circumstances. That is not an error.
38. With those subsidiary points out of the way I turn to the words in issue.
39. The clause is clear in that it is seeking to provide that certain activity is unlicensed. The unlicensed activity is the provision of services by the licensee which satisfies the two conditions. The relevant licensee in this case is BT but it could just as equally apply to ASSIA. The services in question must be provided on behalf of a third party (condition 1) and those (same) services must be provided using materials provided by or on behalf of that same third party (condition 2). Only if both conditions are satisfied is the provision of the relevant services by the licensee unlicensed. And that is so only “to the extent that” these two conditions are satisfied.
40. In the present case, as between BT and the Service Provider, it is undeniable that BT is contracting with the Service Provider to provide VULA services to the Service Provider and does in fact provide them to the Service Provider. However I have some sympathy with a submission by ASSIA made on appeal that these facts alone do not answer the question. After all the data connection is at least in some sense being provided to the end user, not least because it is the connection to their premises. The fact this data connection is also provided to the Service Provider does not seem to rule out that it is also provided to the end user. In other words why should the fact that the service in question is provided to the Service Provider necessarily rule out a view of the circumstances that they involve that same service also being provided to the end user?
41. ASSIA’s case at least on appeal does not now deny that the VULA data connection service is provided by BT to the Service Provider. The submission is that looked at from the contract’s point of view the VULA service is also provided to the end user – and so since it is provided by BT, BT must be providing the service to the end user on behalf of the Service Provider.
42. BT’s case is that the fact they are provided to the Service Provider is part of the reason why those services are not to be regarded as being provided on behalf of the Service Provider to the end user. What the end user is getting from the Service Provider is a different service, i.e. the internet connection.
43. It seems to me that the right way to resolve this issue is to focus on the words “on behalf of” in the relevant clause. It is common ground (and I agree) that this term was wider



than agency. In other words to satisfy the expression does not require one to identify that the licensee (BT) is providing services to the fourth party (end user) as agent for the third party (Service Provider). However how much wider is it?

44. Essentially the parties' rival submissions are based on different constructions of that phrase. One construction – a narrow one – is that the provision of a first service to the third party by the licensee rules out the idea that when the third party offers a more extensive service to a fourth party (the end user), of which the first service is a necessary part, that first service can be characterised as being provided to the fourth party on behalf of the third party. The alternative – a wide construction – is that the provision of the first service to the third party by the licensee does not preclude the idea that when the third party offers a wider service to the end user of which the first service is a necessary part, those first services can also be characterised as being provided to the end user by the licensee on behalf of the third party.
45. In my judgment, as a matter of the meaning of the words, either construction is tenable. Like the judge, I believe that the commercial purpose of the contract as a settlement of patent litigation, the fact that one of the actions expressly cited in the recitals was a patent dispute about VULA, and what the judge described as business common sense, all strongly favour an interpretation which does not carve the known VULA service outside the scope of the licence.
46. If the clear meaning of the words of this clause did have the result of carving VULA out of the licence then I am not convinced these contextual factors would have carried the day for BT. Clause 10.1 is clearly intended to operate to carve some activity out of the scope of the licence, and if it did catch VULA then it could have been BT which made a bad bargain. However I am satisfied that there are rival interpretations of the contract in this case and so it is right to take these factors into account in the way the judge did.
47. ASSIA complains that this construction allows BT to capture a very large part of its line management market in the UK. That may be so, but if that is what has happened, it has happened because the market has chosen to use BT's VULA service. In relying on an ambiguous part of clause 10.1, ASSIA cannot complain that it was unaware of VULA as something offered by BT at the time of the settlement, after all it was in issue in a pending case between the rival organisations; nor can ASSIA complain about a conclusion that the intention of the parties, construed objectively from the agreement itself, was to settle such disputes.
48. I therefore reject Grounds 2, 3 and 4. I would dismiss this appeal.

**Lord Justice Nugee:**

49. I agree. Mr James Segan KC, who appeared with Mr Luka Krsljanin for ASSIA, relied on the principle that where a contract is unambiguous, the Court must give effect to it. Considerations of business common sense (or commercial common sense) are tools to aid the Court in choosing between possible rival interpretations, but unless there are genuine rival interpretations this cannot be used to affect the meaning. He submitted that BT plainly did provide a service to the end users on behalf of the Service Providers, and that was that.

50. I do not doubt the principle, and if that were the unambiguous effect of the clause I agree that effect should be given to it regardless of the context or the commercial consequences. But like Birss LJ, I do not think this particular clause is only open to one interpretation. It is not difficult to characterise what BT does by providing the VULA as providing a service to the end users, and doing so on behalf of the Service Providers. But on another view BT is not so much providing a service to the end users but providing a service to the Service Providers which in turn enables *them* to provide a service to the end users, not BT. There seems to me to be a real question as to whether the clause in question was intended to apply to such a situation. And once one has reached that conclusion, then there is nothing wrong in taking into account the commercial context and business common sense in choosing between the rival interpretations.
51. In those circumstances I agree that Falk J was right in her conclusions and that the appeal should be dismissed for the reasons given by Birss LJ.

**Lord Justice Arnold:**

52. I agree with both judgments.