

PATENTS ACT 1977

IN THE MATTER OF a reference by
Central Research Laboratories Ltd under
section 12(1)(a) as to the entitlement to
Patent Application No PCT/GB 92/02064
in the name of Alan Remy Magill

DECISION

The patent application in issue

1. International patent application No PCT/GB 92/02064, made under the Patent Cooperation Treaty, was filed by Mr Magill on 9 November 1992, claiming priority from GB patent application No 9123638.0, filed on 7 November 1991. After it was published on 13 May 1993 as WO93/08734, it entered the national phase in the USA, Canada and Japan and the regional phase before the European Patent Office. A patent was subsequently granted in the USA. The application is still pending in Japan but processing has been suspended in the European Patent Office and Canada. The UK was originally designated under the European regional designation, but since then a GB patent has been granted in pursuance of the original GB application and the GB designation under the European Patent Convention has been withdrawn.

2. The application relates to a device for attachment to e.g. a baby's vest and includes piezo-electric sensors detecting vest deflections corresponding to respiratory/heart functions, the resulting signals being transmitted for remote analysis. Mr Magill is named as the inventor.

The present claim

3. On 17 July 1998 Central Research Laboratories Ltd (CRL) filed the present reference under section 12(1)(a). They request a determination of the question whether CRL and Intelligent

Clothing Ltd are entitled to be granted a patent for the invention described and claimed in PCT/GB 92/02064. They claim that, in the light of an agreement entered into between CRL and Intelligent Clothing Ltd, CRL are entitled to 30% of the International Patent Application and to 30% of each of the patents and patent applications issuing therefrom.

4.The reference was served on both Mr Magill and Intelligent Clothing Ltd. This prompted a letter dated 12 October 1998 objecting to the claim, written on the company headed paper of Intelligent Clothing Ltd and signed by Mr Magill in his capacity as the company's "CEO" - presumably meaning Chief Executive Officer. The letter was not in the normal form of a counterstatement, but the Patent Office - correctly in my view - treated it as such. However, the letter did not make clear whether the claim was being opposed by Mr Magill in person, by Intelligent Clothing Ltd, or by both of them, and this was never clarified right up to the hearing. At the hearing both sides were content to treat Mr Magill and Intelligent Clothing Ltd as one and the same so far as the present claim is concerned, and I am prepared to go along with that so far as I am able. However, since the reference asserts that the true proprietors ought to be not Mr Magill but CRL and Intelligent Clothing Ltd, I will not be able to fudge the distinction between Mr Magill and Intelligent Clothing Ltd completely. This was not the only issue that the parties did not address properly and which have left me with a somewhat unsatisfactory muddle to clear up.

5.Evidence rounds followed as usual. CRL's evidence- in-chief comprised a statutory declaration from Dr Martin Steel, a Technical Director at CRL, and a statutory declaration from CRL's patent agent, Mr John Gordon of Barker Brettell. The defendants' evidence comprised further letters from Mr Magill to the Office, dated 14 June 1999 and 7 December 1999, which were sworn as statutory declarations. The basis of the claimant's evidence in reply consisted of a further statutory declaration from Mr Gordon.

6.After completion of the rounds of evidence the matter came before me at a hearing on 18 July 2000. The defendants were represented by a solicitor friend of Mr Magill's, Mr Michael Webster and CRL were represented by their patent agent, Mr Gordon.

The legal basis for the reference

7.The reference is made under section 12, the relevant part of which reads :-

“(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) -

(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.”

.....

and the comptroller shall determine the question so far as he is able and may make such order as he thinks fit to give effect to the determination.”

8.The first clause of subsection (1) immediately raises a question, because two patents had been granted for the present invention before the reference was made, one in the UK and one in the US. In correspondence earlier in these proceedings, the claimants asserted that the grant of the UK patent was irrelevant for the purposes of section 12 because it was not granted in pursuance of the international application which is the subject of the present proceedings. The defendants accepted this, and I think they were right to do so. The claimants also, rightly, conceded at the hearing that the GB patent was not in issue in the present proceedings, which have been brought under section 12, not section 37.

9.However, the US patent, No 5749365, is in a different position because this was granted in pursuance of the international application and before the initiation of these proceedings, on 12 May 1998. Neither side had addressed this point until I raised it at the hearing. In response to my query as to whether I had jurisdiction to hear the reference, Mr Gordon conceded that I had no jurisdiction so far as the US patent was concerned, but submitted that section 12 should be interpreted as meaning I retained jurisdiction in respect of all the other live designations in the international application. Mr Webster did not resist this submission so, in the absence of arguments to the contrary, I will assume I do have such jurisdiction.

The agreement

10. This whole dispute centres on an agreement made on 27 April 1994 between CRL, a subsidiary of Thorn EMI plc, and Intelligent Clothing Ltd. Since this agreement is fundamental to the claim, I will quote it in full:

“Agreement between Thorn EMI Central Research Laboratories (CRL) and Intelligent Clothing Ltd. (IC)

RECITAL

CRL, a wholly owned subsidiary of Thorn EMI PLC, being experienced in the business of patent application, patent administration and patent litigation procedure, have offered to provide patent services. UK patent application number GB 2 261 290A, International Publication Number WO 93/08734 requires further processing and we have requested CRL to take over the function of patent agent from the current agent, Graham Coles Ass.

IT IS AGREED

CRL will bear the cost and carry out any work in taking the above defined patent application into the “National Phase” in the countries designated. Designated States: CA, JP, US, European patent (AT, BE, CH, ES, FR, GB, IE, LU, MC, NL, SE) as described in PCT International Application document WO 93/08734.

CRL is satisfied that it is able to take the necessary actions in respect of the patent applications (sic) “National Phase” in the time available, (7.5.94)

Intelligent Clothing Ltd. will

- 1) Pay CRL £7,000.00 (seven thousand pounds) immediately after acquiring venture capital for the development of IC’s products.
- 2) Pay CRL £40,000.00 (forty thousand pounds) within 30 months of today’s date and a further £23,000.00 (twenty three thousand pounds) within 42 months of today’s date.

and

- 3) This arrangement is self contained and monies will neither be deducted from any development contracts between IC and CRL, nor from subsequent work relating to the patent application, which will be fully funded by IC.
- 4) IC confirms that subject to the availability of sufficient money from investors IC will instruct CRL immediately to undertake the full development programme described in CRL's project proposal X.3380.

and if IC defaults on payment as described in clause 1) and 2) above CRL will be assigned 30% of the patent application No PCT/GB92/0206 (sic) and any published patent in the aforementioned Designated States which relates specifically to application number PCT/GB92/0206 (sic)."

The agreement is signed on behalf of the parties by Mr Magill as Chief Executive of Intelligent Clothing Ltd and a Mr John White for CRL.

11. It is common ground between the parties that the first payment of £7,000, mentioned in paragraph 1) of the agreement, was made but that the further monies set out in paragraph 2) have not been paid. What the parties disagree about is whether, in this situation, the default clause at the end of the agreement comes into play. The claimants say it does. The defendants say it doesn't, although they are quite prepared to accept that they still have a legal obligation to pay the clause 2) monies. They say, however, that they cannot do so at the moment because they have insufficient funds.

12. The parties arrive at their differing views by virtue of different interpretations of the first line of the default clause, ie "if IC defaults on payment as described in clause 1) and 2) above", so I must now look at their submissions and decide what this line means.

Should the default clause come into play?

13. It is convenient to start with the defendants' arguments. Mr Webster explained that Mr Magill had entered into the agreement because he was short of funds and hence settled for a deal which necessitated his agreement to pay a large amount of money for the work that CRL were going to do. Whilst the agreement relates only to prosecuting the international patent application, there was an expectation that the two parties would work together to exploit the

invention as some sort of joint venture. Initially the parties did work well together, but after a management buy-out at CRL trust between the parties evaporated and co-operation was no longer possible.

14. Mr Webster's main argument was that the agreement does not say or imply that CRL would be assigned 30% of the patent rights if Intelligent Clothing Ltd were to default on **any** of the stage payments. In his view the agreement states that CRL will be entitled to 30% share only if Intelligent Clothing Ltd default on **both** clause 1) and clause 2) of the agreement. They have, he said, not defaulted on clause 1), and therefore the conditions required to trigger the default clause have not been met.

15. In support of this interpretation of the clause, Mr Webster pointed out that it would have been a simple change to substitute "and" for "or" in the first line of the default clause, but CRL did not object to the use of the word "and" at the time. He produced definitions from lexicons and examples from case law to indicate that "and" is generally intended as a conjunctive word, being used in a cumulative sense and hence requiring the fulfilment of the elements preceding and following it, i.e. the antithesis of "or". He also argued that, if the payments were due in the other order, i.e. first £63,000 and then £7,000 second, and, in these circumstances, the second payment was not paid the claimant's interpretation of the agreement would mean that Intelligent Clothing Ltd would give up 30% of their patent for only £7,000. He maintained that no sensible person would make such an agreement. Indeed, he said, the absurdity of any other interpretation was manifest if one considers what would have been the position if the amounts due in the two staged payments had been £1,000,000 and £1 respectively.

16. For the claimants, Mr Gordon maintained that the agreement required the two clauses to be taken together with the second payment being added to the first. The proper meaning of the disputed phrase was that if all the staged payments described in clauses 1) and 2) were not met in full then the default clause applied. He considered that the opponents were using obtuse linguistic argument as a subterfuge and that it would be wrong if Intelligent Clothing Ltd were able to get out of the agreement because they did not have the money to perform clause 2).

17. In further support of their arguments, the claimants had produced in evidence a fax dated 20 April 1994 - ie a week before the agreement was made - and allegedly sent to Mr Magill by Mr Steel. It discusses the terms of the proposed agreement and refers to CRL being assigned 30% of the patent if Intelligent Clothing Ltd defaults on “any” of what became clauses 1) to 4). In the statutory declaration to which the fax was exhibited, Mr Steel says he spoke to Mr Magill after sending this fax, and Mr Magill verbally agreed to all the terms. Mr Magill then sent a draft agreement reflecting these terms, and the only change that was made to that draft was to clarify exactly what work CRL were going to do in respect of the patent application.

18. Even though the defendants had made absolutely no attempt to counter Mr Steel’s evidence in their own evidence, at the hearing Mr Webster asserted, out of the blue, that Mr Magill had never seen this fax. He said, however, that Mr Magill did agree he had discussed the draft agreement verbally with Mr Steel.

19. Clearly it is for me to decide how the agreement should be interpreted. I was expecting the legal representatives of both sides to provide me with assistance in doing this by drawing my attention to case law establishing the principles on which contracts should be interpreted, but it does not seem to have occurred to either of them that such case law might be relevant. Apart from Mr Webster’s discussion of the meaning of “and”, neither side was able to draw my attention to any case law, despite my invitation to do so. Indeed, I was not convinced they had given the principles of interpretation any thought. I shall therefore have to rely on my own understanding of the principles that I ought to apply.

20. As I understand it, what I must do is ascertain what reasonable persons in the shoes of the parties would consider were the mutual intentions of the parties as to the legal obligations each assumed by the contractual words in which they sought to express them. I must construe these words in their grammatical and ordinary sense. I cannot take account of what might have been the actual intentions of each party, only the intention as it appears from the words used. I can consider the surrounding circumstances as an aid to establishing the intention expressed by the words used, though in general I cannot attach any weight to drafts of the agreement which preceded the final version.

21. On this basis, I am quite satisfied that the default clause must be construed as coming into play if *any* of the payments specified in clauses 1) and 2) is not made. These clauses specify what one might term a payment programme, and the only reasonable interpretation of the first line of the default clause is that the clause was to come into play if Intelligent Clothing Ltd defaulted on that programme, which on their own admission they did. Mr Gordon asserted that this is not interpreting the word “and” disjunctively, and he is right. The word is simply being used to link the parts of the payment programme.

22. A moment’s thought quickly shows the absurdity of Mr Webster’s interpretation. As both parties agreed at the hearing, the clause 1) payment necessarily preceded the clause 2) payments. Because of this, whilst it was possible to comply with clause 1) but then not comply with clause 2), it would have been impossible to do the reverse. If Intelligent Clothing Ltd’s first payment had been for, say, £40,000, the first £7,000 of that would have had to be treated as the clause 1) payment as that was the first one due. If, as Mr Webster’s asserted, it was sufficient to make just one of the payments to prevent the default clause kicking in, that is tantamount to saying that the default clause would only kick in if the clause 1) payment was not made. If that was the intention, the clause would surely have read “and if IC defaults on payment as described in clause 1) above CRL will be assigned 30% . . .”. The fact that it does not say this can only mean, on any reasonable interpretation, that this is not what was intended.

23. For exactly the same reason, I do not consider there is any force in Mr Webster’s argument that, on Mr Gordon’s interpretation, Intelligent Clothing Ltd might have given up 30% of the patent rights for defaulting on just £7,000 and this would have been absurd. That possibility could not have occurred under this agreement. I do not find his attempt to draw an analogy with staged payments of £1,000,000 and then £1 helpful either. If that had been the payment programme specified in the agreement, I have no doubt the default clause would have been worded differently, so the analogy is unhelpful.

24. In the light of my interpretation of the agreement on the face of the document, I do not need to consider the fax which preceded it. It probably ought to be disregarded anyway as being tantamount to a draft of the agreement and/or an expression of the actual intentions of one party. However I have to say that I was not impressed by the defendant’s attempts at the

hearing - unsupported by any evidence - to assert that Mr Magill had never seen it. If this is what they wished to allege, they should have provided evidence to support the allegation, and should have done so much earlier in the proceedings.

25. Before concluding my consideration of whether the default clause comes into play, I must deal with three other points that were raised at the hearing. Firstly, there were a number of submissions on the question of whether payments required by the agreement were reasonable. Mr Webster submitted that the payments seemed high for the work involved, which was simply to take the application into (but not through) the national phase. These high payments had been agreed, Mr Webster said, because CRL had Mr Magill over a barrel. Mr Gordon disagreed, arguing that taking the patent application into the national phases of the countries concerned was expensive. He further argued that the payments reflected the fact that CRL were additionally providing support for Intelligent Clothing Ltd's attempt to get venture capital for the organisation and that this necessitated a considerable amount of work, including many meetings with venture capitalists for Dr Steel and his support staff. I have difficulty accepting this latter assertion because clause 3) appears to state, unequivocally, that the arrangement specified in the agreement is self-contained, and yet if the payments were simply to take the application through the international phase the payments do seem extraordinarily high. Nevertheless, in the end Mr Webster rightly conceded that whether or not the payments were reasonable is irrelevant to the interpretation of the first line of the default clause, so I need consider this point no further.

26. Secondly, Mr Webster asserted that CRL had assured Mr Magill they never intended to invoke the default clause. Mr Gordon argued that the idea that CRL never intended to enforce the agreement was not supported by evidence and came from the realms of fantasy. CRL would not have gone into the agreement without intending to enforce what had been agreed and they could not wait for ever for the debt to be paid. Mr Webster conceded that there was no evidence to support Mr Magill's understanding of the situation, and in particular no evidence to support his contention that there was a verbal agreement that CRL would not implement clause 2). Mr Webster was actually conceding a little more than he needed to, because there is some evidence on the issue in Mr Magill's own statutory declaration. However, this evidence is most unsatisfactory, being rather vague and with no information about when the alleged discussions took place or exactly what was said. Had Mr Webster

tried to rely on it, I doubt whether I would have been prepared to attach any weight to it. Since he conceded the argument, I do not need to consider it further.

27. Finally the question of whether the default clause was a “penalty clause” (and therefore unenforceable) was touched on briefly, but Mr Webster accepted it was not. I need say no more about that.

What does the assignment in the default clause mean?

28. I have concluded that Intelligent Clothing Ltd have indeed defaulted “on payment as described in clause 1) and 2)” of the agreement but that, unfortunately, is not the end of the matter. If I am to make an order based on the default clause, I have to be able to understand what the default clause intended should happen, and I have considerable difficulty with this. What does “assigned 30% of the patent application” (or of any ensuing patent) actually mean, and how can I reflect this in a suitable order?

29. The claimants’ statement of case ducks the issue by simply asking the comptroller to make “such order as he thinks fit under section 12(1)(a)”. The statement does, however, asks the comptroller to determine whether CRL and Intelligent Clothing Ltd are jointly entitled to be granted the patents. Section 36 of the Patents Act 1977, which deals with co-ownership of patents and patent applications, provides a basic framework of rights and obligations of co-owners, but co-ownership is often unsatisfactory in practice when, as in this instance, the relationship between the parties has broken down, so it is not necessarily the best solution. More to the point, “assigned 30%” does not, in my view, necessarily mean “made a co-owner”. Further, if I did decide to order co-ownership, I cannot see how I could reflect the fact that the split is supposed to be 30:70 rather than 50:50.

30. At the hearing I asked both parties for their interpretation of the phrase “CRL will be assigned 30% of the patent application No PCT/GB92/0206 and any published patent in the aforementioned Designated States which relates specifically to application number PCT/GB92/0206”. Neither had any clear view of what was intended. Mr Gordon suggested two possibilities, that I order that CRL be co-patentees (which as I pointed out to him would effectively give them a 50% share) or alternatively that there should be some sort of licence

agreement. He suggested that, since it was unlikely that either Intelligent Clothing Ltd or CRL would themselves manufacture the invention, then perhaps the phrase meant that the parties would share, in the proportions 70:30 any royalties that accrued from licensing the technology to a manufacturer. Mr Webster admitted that he had not really considered the phrase but acknowledged that a jointly owned patent cannot be exploited by a licence without the approval of the other party. He thought that the licensing arrangement was a possibility, perhaps a non-exclusive licence.

31. The very fact that neither party had any clear idea of what this part of the default clause means confirms my concerns about it. I do not believe it is clear, and suspect it was put into the agreement without any thought as to what it really meant. This clause seems to me incapable of proper interpretation without further agreement between the parties in order to implement it. It may be they would have to agree on a third party to exploit the invention and work out some sort of royalty arrangement, or alternatively they might have to agree to split the market between them somehow, but without some such further agreement I cannot see how the clause can be implemented. The fact that I find it difficult to contemplate a suitable form of order to give effect to the clause reinforces my view that the meaning of the clause is uncertain. Section 12 does, of course, give me wide discretion as to the form of any order, but in the absence of any agreement between the parties as to how the invention is to be exploited, I am at a loss to see how I could give CRL rights in or under the patent applications and any ensuing patents in a way which would reflect, even in the loosest of senses, a “30:70 split”.

32. I am aware that the courts are reluctant to find a clause in an agreement void for uncertainty and are only prepared to do so as a last resort, especially in an agreement which has been partly performed. However, in the present circumstances, where the parties were unable to assist me in its proper meaning and I am unable to discern that meaning myself, I feel I have no option but to make such a finding. Accordingly I find the default clause void for uncertainty.

33. I should perhaps say that does not mean Intelligent Clothing Ltd are relieved of their obligation to pay the clause 2) monies. It simply means the CRL will have to look elsewhere for redress, since there is no redress available to them in the default clause.

34. At the hearing I did discuss with the parties the possibility that, if I found the default clause had become operative, I would allow them an opportunity to make further submissions on what form of order I ought to make. I have decided against this for two reasons. Firstly, I do not think there is the slightest prospect that they would come up with any form of mutually agreed order. Secondly, as I have indicated above, I have difficulty envisaging any order they could suggest which would properly reflect the contents of the default clause.

Entitlement as between Mr Magill and Intelligent Clothing

35. I must now come back to the issue I touched on earlier, the relationship between Mr Magill and Intelligent Clothing Ltd and how this affects entitlement. The reference, it must be remembered, did not merely assert that CRL was entitled to a share in the patent applications and any ensuing patents. It also asserted that Intelligent Clothing Ltd was entitled to a share too and that the current applicant for the patents, Mr Magill, was not. At this point I can no longer go on treating Mr Magill and Intelligent Clothing Ltd as one and the same.

36. Mr Gordon asserted that, leaving any question of CRL's entitlement to the side, Intelligent Clothing Ltd were the true proprietors of the patent application in suit since Mr Magill signed the agreement on behalf of Intelligent Clothing Ltd with the implication that the patent application belonged to Intelligent Clothing Ltd by virtue of section 39(1)(b) of the Patents Act 1977. Both in their evidence and at the hearing, the defendants conceded that it was always intended that ownership of the patent rights would be vested in Intelligent Clothing Ltd, or at least, as Mr Webster put it at the hearing, when the company got further off the ground. When I asked Mr Webster whether he accepted that Mr Magill was under an equitable obligation to transfer the patent rights, he agreed this was probably right but that he wasn't quite sure of the strict legal position.

37. The failure properly to address the relationship between Mr Magill and Intelligent Clothing Ltd leaves me in a difficult position, because I cannot simply ignore this aspect of the reference. I feel that such evidence as I have strongly suggests that the rights ought to belong to Intelligent Clothing Ltd rather than Mr Magill. Accordingly, I am minded to make an order directing Mr Magill to assign forthwith to Intelligent Clothing Ltd all rights in the

patent applications and any patents that result therefrom. However, I am conscious that because the relationship between Mr Magill and the company has not been properly addressed in the proceedings so far, I may not be aware of the full facts. I will therefore allow the defendants six weeks in which to say whether they wish to resist such an order and if so, on what grounds. If they do resist it, I will obviously give CRL the opportunity to reply and, if the parties wish it, an opportunity to be heard before I decide the matter. If they do not resist it, I will make the order accordingly, though it would be helpful if the defendants would produce a draft when they reply. Clearly, for the reasons given earlier, I have no jurisdiction to make an order in respect of the GB and US patents.

Conclusion

38. Whilst I have found that Intelligent Clothing Ltd have defaulted on payment within the meaning of the first line of the default clause in the agreement of 27 April 1994, I have also found that the default clause is void for uncertainty. I decline to order that CRL be made co-applicants of International patent application No PCT/GB92/02064, and decline to make any other order giving them rights in or under that application. I am, however, minded to order Mr Magill to assign the application forthwith to Intelligent Clothing Ltd, but have given him six weeks to say whether he wishes to resist such an order.

Costs

39. The reference has failed insofar as I have found CRL are not entitled to rights in the patent applications and any ensuing patents, and to that extent the defendants are entitled to their costs. However, the reference may end up succeeding in part if I do eventually order Mr Magill to assign the rights to Intelligent Clothing Ltd. Further, insofar as the reference has failed, it has not done so because the arguments advanced by the defendants were successful. Indeed, I have found they were unsound. The reference has failed because of a point that neither side had even thought to address. In these circumstances, I have decided to make no order as to costs in respect of the proceedings so far.

Appeal

40. As this decision does not relate to matters of procedure, any appeal should be filed within six weeks.

Dated this 24th day of July 2000

P HAYWARD

Divisional Director, acting for the Comptroller

THE PATENT OFFICE