INTELLECTUAL PROPERTY OFFICE

BL O/433/10

16 December 2010

**PATENTS ACT 1977**

BETWEEN

Mastermailer Holdings Plc — Claimant

and

Data Security Limited and Stephen Black — Defendant

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PROCEEDINGS

Application under sections 8(1)(a) and 12(1)(a) of the Patents Act 1977
In respect of patent application WO2008/062214

HEARING OFFICER Julyan Elbro

Mr Benet Brandreth (instructed by Charles Russell LLP) for the claimant
Mrs Emma Stokes of Data Security Limited represented the defendants
Hearing date: 19th August 2010

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# DECISION

## Introduction

1 This case relates to entitlement to an international patent application, WO2008/062214 ("the application"), made under the Patent Cooperation Treaty. It was filed on 23 November 2007, in the name of Data Security Limited ("DSL") naming Mr Stephen Black ("Mr Black") as inventor. Collectively, DSL and Mr Black are the defendants in this action, which was started on 22 May 2009 by Mastermailer Holdings Plc ("the claimant") claiming ownership of the application.

## Background to these proceedings

2 These proceedings are one of a number of proceedings in various legal fora currently ongoing which involve the claimant and defendants in different ways.

3 All the proceedings originate from the original relationships between Mr Black and others and the Mastermailer group ("Mastermailer"), of which the claimant is the parent company; its operating subsidiary is called Mastermailer Stationery

(MMS). At various times Mr Black was a director and employee (including at one time being chief executive) of the companies in the Mastermailer group. The precise dates at which he held his various posts is an issue of dispute between the parties. DSL contracted with Mastermailer to provide some services (this contract is also a matter of dispute between the parties).

4 During 2008, Mr Black and some of his associates were ousted from various positions within the Mastermailer group. Since that time, Mastermailer has been pursuing the various legal avenues mentioned above.

5 I was provided with a list of the various actions ongoing, but most are not of relevance here. The key proceedings which (it was argued) are relevant are high court proceedings in which Mr Black and others are being sued by MMS for misappropriation of funds. I shall refer to these proceedings in more detail below.

6 The present proceedings have not progressed entirely smoothly. After the filing of the statement and counterstatement, there was some initial confusion over whether Mr Black was indeed the inventor of the invention in suit, as it appeared at first that the defendants denied this to be the case. Following the issue of a Preliminary Opinion by the then hearing officer, the defendants clarified that in their view Mr Black was indeed the inventor, a position which is now common ground between the parties.

7 Subsequent to this, the claimants requested that the IPO decline to deal with the application, in order to give the high court jurisdiction so that they could consolidate this case with the ongoing high court case mentioned above. Alternatively, they sought a stay of the current proceedings. These requests were opposed by the defendants and the matter came before me at a telephone hearing on 19 August 2010.

## The law and its interpretation

8 This reference was made under sections 8 and 12. The application in suit is an international application made under the Patent Cooperation Treaty, and therefore section 12 is relevant until the application enters the national phase and section 8 would apply thereafter. Relevant parts of these sections read:

***Section 8***

*8.(1) At any time before a patent has been granted for an invention (whether or not an application has been made for it) –*

*(a) any person may refer to the comptroller the question whether he is entitled to be granted (alone or with any other persons) a patent for that invention or has or would have any right in or under any patent so granted or any application for such a patent;*

*(b) ..*

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

*(2) …*

***Section 12***

*12.(1) At any time before a patent has been 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 for) –*

*(a) any person may refer to the comptroller the question whether he is entitled to be granted (alone or with any other persons) a patent for that invention or has or would have any right in or under any patent so granted or any application for such a patent;*

*(b) ..*

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

*…*

9 However, Sections 8(7) and 12(2) state in identical terms

> *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 court shall have jurisdiction to do so.*

10 The key is therefore whether the question would "more properly be determined by the court". This was considered in *Luxim Corporation v Ceravision Limited* [2007] EWHC 1624 ("*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."*

11 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."*

12 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.

**Issues to be considered in this action and in the High Court action**

13 A key difference between the parties relates to whether or not there is a significant overlap between the matters under consideration in the present case and in the parallel high court proceedings referred to above. It is convenient to consider this question first.

<u>The present proceedings</u>

14 As I discussed above, it is no longer in dispute between the parties that Mr Black was the inventor of the invention in suit.

15 The claimant's claim to the invention in the present proceedings is founded on two prongs:

a) That Mr Black was at the relevant time employed by Mastermailer and therefore the invention belongs to it by operation of section 39; and/or

b) That Mr Black was at the relevant time a director of Mastermailer, that he therefore owed a fiduciary duty towards it, and hence the invention should belong to Mastermailer.

16 The defendants, in their counterstatement,

a) Deny that Mr Black was employed by Mastermailer at the relevant time; and

b) while accepting that he was a director of Mastermailer and owed a fiduciary duty towards it, deny that this in any way meant that the invention should belong to Mastermailer.

17 At the hearing, Ms Stokes disputed that point b) was in issue in the present proceedings. She pointed to the preliminary evaluation which, as I explained above, was focused on questions of Mr Black's employment, and a subsequent letter from the IPO dated 23 February 2010 which highlighted the employment status as a key issue for evidence, but did not mention issues relating to fiduciary duty.

18 In response, Mr Brandreth conceded that the original focus of the claim has been Mr Black's alleged status as an employee, but he pointed out that the grounds relating to fiduciary duty were clearly present in the original statement of grounds, and that this point was reiterated in a letter sent by the claimants on 28 January 2010 in response to the preliminary evaluation. (He further expanded on this point at the hearing by saying that he considered there to be a constructive trust of the sort considered by Pumfrey J in *French and Mason* but the substance of the argument was not fully explored and does not appear to be relevant here).

19 In my view, the claimants have clearly put the question of the fiduciary duty owed by Mr Black at issue, and it is relevant to the ultimate question of ownership of the applications. I regret any confusion created in Ms Stokes' mind by the IPO's letter of 23 February, which I believe was phrased as it was because of the then lack of clarity of the points at issue, as explained above in the discussion of the preliminary evaluation.

The High Court Proceedings

20 In the High Court, as noted above, the claimant is MMS, which as I noted above is a subsidiary of the claimant in the present proceedings, and the defendants are Mr Black, his wife Mrs Claudia Black, and a Mr Sanderson ("the high court defendants").

21 Mr Brandreth characterized the issues in the high court proceedings as being about the high court defendants treating the Mastermailer group as "a piggy bank". He referred to various allegations made in the high court proceedings to this effect, in particular to a contract between Mastermailer and DSL, the signing of which by Mr Black MMS alleged was in breach of Mr Black's fiduciary duty.

22 Ms Stokes disputed various points of MMS's allegations in the high court, but did not appear to dispute that these issues were in play. In particular she accepted that Mr Black's fiduciary duty as a director was in issue, but did not accept (and I did not understand Mr Brandreth to claim) that his employment status was relevant to the high court proceedings

The overlap

23 From the above it appears to be that there is a degree of overlap in the two proceedings to the extent that the question of the scope of Mr Black's fiduciary duty is relevant to both. It is less clear to me that precisely the same issues arise in relation to that duty – in the present proceedings, the question is whether that duty means that the patent should belong to the claimant, whereas in the high court, the question is whether that duty was breached in the way Mr Black treated MMS's funds. However, it does seem that there is likely to be some evidence in

common in determining these two questions.

**Request for the Comptroller to Decline to Deal**

Arguments of the parties

24 Mr Brandreth's arguments in favour of my declining to deal with this claim were essentially threefold:

a) There is a significant overlap between the matters at issue in this case and in the high court proceedings, with a corresponding risk of inconsistent decisions;

b) furthermore, these overlapping matters are complex and would be more properly dealt with by a high court judge than by an IPO hearing officer; and

c) as a practical matter, the existence of multiple proceedings would unnecessarily drive up costs.

25 I have made findings above as to the extent of overlap between the two proceedings. Mr Brandreth argued that given the existence of an overlap, there was a risk of inconsistent decisions: the IPO hearing officer might make one decision on entitlement based on his interpretation of whether Mr Black had breached his fiduciary duty, and the court might than come to a different decision as to whether that duty had been breached.

26 Regarding the complexity of the case, Mr Brandreth referred me to paragraph 55 of *Luxim*, in which Mr Justice Warren said, 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 Mr Brandreth drew my attention in particular to the reference in point b above to findings of breach of fiduciary duty being more appropriate for a judge to consider. He emphasised a number of difficulties in the evidence, although Ms Stokes disputed these and it appeared that most of these related to the high court action rather than the current proceedings.

28 Finally, Mr Brandreth drew attention to the cost of the various proceedings currently underway. He suggested that were I to decline to deal, the present proceedings could be consolidated with the high court proceedings, thereby decreasing the number of proceedings and saving on costs. He buttressed this by pointing to the commonality he argued existed between the high court proceedings and the present ones (an issue I consider above).

29 Ms Stokes' arguments against this primarily rested on the contention that she considered Mr Black's fiduciary duty not at issue in the present proceedings. From this, she disputed that the questions of overlap or complexity were relevant.

30 She also maintained that the IPO is the proper forum for entitlement cases (as set out in the Patents Act 1977). She distinguished the situation from *Luxim* in that in *Luxim* it was the defendant "seeking the protection of the court"; in the present case it is the claimant.

31 Furthermore, she argued that to the extent costs were multiplied by the existence of multiple proceedings, this was the fault of the claimant. The claimant had started these proceedings knowing it had started the high court proceedings six months previously. She stressed that the claimant had started 13 separate actions, withdrawing four of them and offering to withdraw three others. She also considered the claimant to be delaying matters in the high court proceedings.

32 Ms Stokes considered that the claimant was conducting a "vendetta" running up costs for no chance of gain. On this point, she asserted the claimant was insolvent, as illustrated by the security for costs order the high court defendants had obtained in those proceedings.

Assessment

33 Turning first to Ms Stokes' point that the comptroller is the correct forum to determine this reference because the Patents Act has conferred the jurisdiction, 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.

34 On this point, I do not think there is any indication in the cases that it makes a difference in itself whether it is the claimant or the defendant (or, indeed, the

comptroller acting on his own initiative) that requests the comptroller to decline to deal: the question is whether or not it would be more appropriate for the court to deal with the reference.

35 Equally, it does not seem to me that the question of who is responsible for the proliferation of proceedings has any relevance to whether I should decline to deal – either way, my decision would not increase the numbers of proceedings.

36 The question of whether or not the defendants are exposed to greater risk of cost weighs to a certain extent against my declining to deal in that there is likely to be a greater amount of cost to them should they lose. On the other hand, should they win they would be able to obtain costs not available in proceedings before the comptroller (including obtaining security for costs in advance, as the high court defendants have done), although it is unclear to me precisely how much would be recoverable given their status (at least before me) as litigants in person.

37 However, it seems clear that a crucial part of the claimant's case is an allegation of a breach of fiduciary duty on the part of Mr Black. The determination of this sort of question of fact is, as Mr Brandreth pointed out, explicitly proposed in *Luxim* as something that one might normally expect it to be more appropriate for a judge to deal with. Although, as stated in *Luxim*, this would not necessarily be decisive, it clearly weighs heavily on the side of my declining to deal.

38 At the same time this question of fact is to some extent at issue in the high court proceedings. Although the precise breach of fiduciary duty alleged appears in each case to be different, there is likely to be evidence in common between the two alleged breaches regarding Mr Black's overall conduct vis-à-vis Mastermailer. While I am not convinced there is necessarily a danger of conflicting decisions, it would seem more efficient and cost-effective if these issues could be considered in the same forum.

39 Overall, I believe that the need to determine whether Mr Black did breach his fiduciary duty, together with the existence of high court proceedings dealing with facts in common, are decisive in favour of my declining to deal with this case.

**Conclusion**

40 I consider that the presence of allegations of breach of fiduciary duty, coupled with the parallel proceedings in the High Court mean that the question referred to me is one which would more properly be determined by the court. I therefore decline to deal with this application in accordance with sections 8(7) and 12(2)

**Request for a stay**

41 As I have decided I should accede to the claimant's request that I decline to deal with this matter, the question of a stay falls away.

42 **Costs**

At the hearing, both parties appeared to be content for costs to be left to the court, were I to decline to deal. I therefore make no order as to costs, with the proviso that if no court proceedings are launched within the 14 days required by

the Civil Procedure Rules following on from this decision, either party may apply to me for a decision on costs in this action.

**Appeal**

43 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.

**J ELBRO**
**Divisional Director acting for the Comptroller**