

0/121/97

PATENTS ACT 1977

Pat/Linda
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IN THE MATTER OF a reference under
Section 12(1) by Edenlist Ltd in respect
of US Patent Application No 08/090131
in the name of David Scott and Brian
Scott

AND

IN THE MATTER OF a reference under
Section 37(1) by David Scott and Brian
Scott in respect of GB Patent No 2253948
in the name of Edenlist Limited

DECISION

1. I have before me two actions. Firstly, Edenlist Ltd have referred to the Comptroller under Section 12(1) of the Patents Act 1977 the question whether US Patent Application No 08/090131 (now granted as US Patent No 5457464) in the names of David Scott and Brian Scott should be assigned to Edenlist Ltd. Secondly, David and Brian Scott have referred under Section 37(1) the question whether they are entitled to the rights in GB Patent No 2253948, granted to Edenlist Ltd. The two actions are related because the GB and US patents are concerned with the same invention and the same facts are at issue in each case. The actions have therefore been consolidated.

2. The invention in suit is a tracking system maintaining alignment between a receiver and a source of electro-magnetic radiation, in particular a satellite receiver dish and a satellite transmitter. Both patents seek priority from a GB application No 9027399.6, in the name of David and Brian Scott, which was deemed to have been filed on 14 January 1991. (The specification was actually lodged a month earlier, but without the necessary

fee.) The GB patent is the outcome of GB Application No 9200700.4, filed on 14 January 1992 in the name of Edenlist Ltd. I shall refer to this as the "second" GB application. The US patent is the outcome of a PCT Application No PCT/GB 92/00079 which was also filed on 14 January 1992. In accordance with United States law, for US purposes the PCT application was made in the names of the declared inventors, David and Brian Scott.

3. The two references came before me on 23 May 1997 at a hearing at which Edenlist Ltd were represented by Mr William Jones and Brian Scott represented himself and his brother, David Scott.

The law on entitlement

4. So far as the GB patent is concerned, entitlement to the patent rights is governed by Section 7(2) of the Act, which reads:

A patent for an invention may be granted -

- (a) primarily to the inventor or joint inventors;
- (b) in preference to the foregoing, to any person or persons who, by virtue of any enactment or rule of law, or any foreign law or treaty or international convention, or by virtue of an enforceable term of any agreement entered into with the inventor before the making of the invention, was or were at the time of the making of the invention entitled to the whole of the property in it (other than equitable interests) in the United Kingdom;
- (c) in any event, to the successor or successors in title of any person or persons mentioned in paragraph (a) or (b) above or any person so mentioned and the successor or successors in title of another person so mentioned; and to no other person.

5. Thus the GB patent must belong to the inventors under (a) unless either there is something to cause (b) to apply - and the only possibility is the provisions for employed inventors in section 39(1) - or the rights have been assigned so that (c) applies.

6. For the US patent, the position is a little more complex. Entitlement may in part be determined by UK law - our section 39, for example, is concerned with ownership of *the invention* - but it may also be determined, at least in part, by the provisions of US law. I have not been given any evidence about the latter. However, at the hearing both sides accepted I should proceed on the assumption that, save for the requirement that the initial patent application be made in the names of the inventors, the principles determining entitlement to the US patent were essentially the same as those for the GB patent, and that is what I shall do.

7. Save for one precedent concerning the powers available to me under section 12, neither side has referred me to any case law.

The issues

8. It is not in dispute that David and Brian Scott are the inventors of everything described in the patents. It is also not in dispute that at the time the first application was filed, all rights in the invention belonged to David and Brian Scott. Indeed, I can go further. It is also not in dispute that there was an expectation - for the moment I will put it no higher than that - by all sides that those rights would be transferred to Edenlist. The central issue that *is* in dispute is whether those rights have been, or should now be, transferred to Edenlist.

9. There is one side issue too. Both sides are primarily interested in the question of who owns the rights to the "basic" invention ie the invention as described in the priority application. However, whilst it was not mentioned in the pleadings, it was put to me at the hearing that there may be matter in the two patents which is not in the priority application, and that the entitlement to any such matter may be different, or at least have a different basis by virtue of section 39(1). For the moment I will consider just the basic

invention, and when I talk about the "invention", I will be referring to the invention to the extent to which it is described in the priority application. I will come back to the question of additional matter later.

The history of events

10. The background to the dispute emerges from the written evidence, which consists of statutory declarations by Mr T G Darling on the one side and Mr Brian Scott on the other. It became clear to me at the hearing that Mr Darling's written evidence had not described the whole story, and that neither sides' pleadings really reflected all the key events. However, it also became clear that only on a few points was there disagreement between the two sides about what had happened.

11. Briefly, after filing the initial application in their own name in December 1990/January 1991, David and Brian Scott looked for someone to help finance exploitation of the invention. They turned to Mr Darling, and entered into an unwritten agreement with him that:

- a company would be founded for the purpose of exploiting the invention;
- David and Brian Scott would be employed by the company and would be appointed as directors;
- David and Brian Scott would initially own 12 each of the 100 shares in the company, and would have the opportunity to increase their shareholding at a later date;
- the rights in the invention would be assigned to the company.

12. The company was indeed duly founded as Edenlist Ltd ("Edenlist") - later also known under the name Offshore Satellite Systems Limited - and some aspects of the original oral agreement were confirmed in writing in an entry in the company minute book recording a meeting on 20 May 1991 as follows:

"1/ Appointment of Brian Charles Lewis SCOTT and David SCOTT as Directors of the company (Forms 288 Signed).

2/ Proposal of 100 Ordinary Shares of £1 each to be the Issued Share Capital of the company, divisible as follows:- GARDLINE SHIPPING LTD 76; B C L SCOTT 12; D SCOTT 12.

3/ Proposed that when the business has been established the Shareholdings will be revised to 1/3 Shares each (ie 34, 33, 33 respectively)".

Gardline Shipping Limited ("Gardline") was and is a company in which Mr Darling had and has a controlling interest.

13. In due course the company instructed patent agents to prepare and prosecute the applications that eventually gave rise to the patents in dispute, and they paid all the costs involved in this. The Scott brothers agreed that the second GB application should be made in the name of Edenlist and that the rights in the US would be assigned to Edenlist even though the US application (or strictly, the PCT application insofar as it designated the US) had to be made in the names of the inventors.

14. About two years later, on 20 March 1993, the Scott brothers, Mr T G Darling and his son, Mr G S Darling, agreed to vary the original agreement, *inter alia* changing the number of shares which the Scott brothers were entitled to purchase later. This variation was recorded in writing, and I will quote parts of it:

"Systems 11 to 20 [*ie the 11th to 20th systems to be made*] will be made by AST and a Royalty charge of £1,500 per system will be payable to Edenlist . . .

Shareholding in Edenlist. Agreed Scott Bros will be given the option to purchase 24% of the Shares each in Edenlist at Nominal value. Purchase of such shareholding to be at a date as determined by Scott bros. . . .

Remaining shareholding to Stay with Gardline who may sell a % to AST. . .

It is agreed and confirmed that the proprietary right to the system(s) is the sole property of Edenlist. A marketing & sales agreement will be placed in force between Edenlist AND AST Granting Sole marketing & Licencing rights AST.

Employment agreements will be entered into(?) between Scott Bros and Edenlist for a 12 months period extendable indefinitely at 6 months notice either way."

"AST" stands for Applied Satellite Technology Limited, a company which is apparently 80% owned by Gardline and 19% owned by Mr Darling's son.

15. I should say at this point that Mr Darling's written evidence implies what was recorded in writing on 20 March 1993 was merely confirmation of what had been agreed in 1991, and in particular, that there had only ever been an agreement to allow the Scott brothers 24% of the shares each. At the hearing Mr Jones conceded that this was not correct and that the 1991 agreement allowed them 33% each. Indeed, Mr Jones could hardly do otherwise, because Mr Darling had actually included the written record of the 1991 agreement in one of his own exhibits.

16. I return to the sequence of events. Nearly a year later, on 28 February 1994, David Scott left the business. The letter issued by Mr Darling at the time on the headed paper of Gardline says he was being made redundant because of the depressed state of the market. There is dispute about whether this was the real reason for his departure, but I do not think that is material to the issues before me. On 3 May 1994 David Scott agreed and signed a compensation package. Under this package he received £2500 in return, *inter alia*, for selling his 12 shares to Gardline and confirming "relinquishing all design or proprietary rights to the offshore satellite television systems developed by Offshore Satellite Systems Ltd". In his evidence, Mr Darling also implies that David Scott relinquished his share option under the March 1993 agreement. I cannot see anything about this in the agreed compensation package, but as I do not feel the point is material to the issues before me, I need not consider it further.

17. Brian Scott remained with the company, but with an increasing state of friction between him and Mr Darling. He clearly felt Mr Darling was deliberately manipulating things so as to ensure that Edenlist were unprofitable and that all the benefits from the invention went to AST. He exhibited to his statutory declaration a number of documents which, he claimed, provided evidence of this, for example, company accounts and draft agreements which Mr Darling apparently wanted him to sign. I have not gone into this evidence in detail because, as will become apparent later, I do not feel what was happening at this stage has any bearing on the issues before me.

18. Brian Scott eventually left the company in May 1995 whilst retaining his shares. Edenlist then asked him to execute a formal assignment of the US patent application, but he refused. They also held an Annual General Meeting at which they proposed a substantial increase in the number of issued shares, requiring Brian Scott to subscribe a further £12,000 to retain his 12% stake in the company. Brian Scott sees ulterior motives in this, but Mr Darling denies them. (From comments made at the hearing, it would appear that the share issue was not, in fact, increased.) Later, in April 1996, the Scott brothers wrote a letter purporting to terminate their agreement with Mr Darling in respect of Edenlist on the grounds of his "repeated breaches in failing to deliver the stock to which we were entitled despite our demands". All this underlines the bitterness that now exists between the Scott brothers and Mr Darling, but again it has little bearing on the issues before me.

The case under Section 37(1)

19. So much for the history. I will now look at the issues. Whilst it has been agreed that I will consider the two references on essentially the same basis, it will be convenient to concentrate on the reference under Section 37(1) first. Section 37(1) reads:

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.

20. The initial GB application, 9027399.6, was filed by David and Brian Scott, and as I have said, there is no dispute that the rights at this time belonged to the Scotts. After the 1991 agreement, the second GB application was filed in the name of Edenlist. The right to do so was stated on the declaration of inventorship as being by virtue of the employee-inventor provisions of section 39(1). So far as the basic invention is concerned, that declaration is manifestly wrong even though all the parties accepted it at the time, because the Scotts were not employed by Edenlist when they made the invention. Indeed, Edenlist did not even exist.

21. The Scott brothers accept, however, that the agreements they made required them to assign the rights to Edenlist. It is their case that Mr Darling (who in the present context can be taken as representing both Edenlist and Gardline) did not fulfil his side of the bargain and that because of this they cannot be compelled to go through with the assignment.

22. The Scott brothers have identified three respects in which, they say, Mr Darling has breached the agreements, but the main one is that he failed to honour the share option commitment. Brian Scott says in his evidence that he and his brother agreed to the second GB application being made in Edenlist's name "providing we would eventually be One Third shareholders of Edenlist". The 1991 agreement, as recorded in the company minute book, clearly gave them the right to this shareholding. However, that agreement was then superseded by the 1993 agreement, and that is where the parties perceive the main problem as lying, because the two sides interpret that agreement differently. Brian Scott

says the agreement increased their potential shareholdings to 36% each (ie 24% on top of the 12% they already had) as compensation for the sole manufacture and marketing rights for the 11th to 20th systems being passed to AST. Mr Darling says that they had, and have, never paid for any shares, so allowing them to buy 24% would only take their shareholding to 24%, not 36%. He also says that they understood "quite early on in the relationship" that if Gardline were investing its money it must have control of the company, ie 52% of the shareholding. At the hearing, Mr Jones amplified this by arguing that because the company was in financial difficulties any financier would want to ensure he had overall control. In any event, it is common ground that Mr Darling has not refused to transfer sufficient shares to increase their shareholdings to 24% each, but he has refused to transfer more than this.

23. I have difficulty accepting Mr Darling's interpretation of the 1993 agreement, not least because his case is inconsistent. His argument that the Scott brothers understood from early on the need for the financier to have overall control cannot be reconciled with the terms of the 1991 agreement. Similarly, his suggestion that the Scott brothers have yet to pay for any shares and thus did not own any at the time of the 1993 agreement must mean that they still own no shares, and yet they are shown in the company accounts as owning the 12 shares each, and Gardline were quite happy to buy David Scott's 12 shares from him in 1994. Further, Mr Darling has not put forward any explanation of why the Scott brothers should have been willing to agree to a reduction in their potential shareholding. After all, no-one is likely to give up their rights without something in return, and there is nothing in the evidence to suggest Gardline were agreeing to put more into the venture at this juncture in return for increased control. The Scott brothers' interpretation of the 1993 agreement seems to me more plausible and their explanation of the slightly-increased potential shareholding believable. However, I do not feel I need to resolve the interpretation in order to decide the issues before me. First, though, I will consider the other two alleged breaches of the agreements.

24. The second alleged breach is that Edenlist failed to honour the requirement in the 1993 agreement to give six months' notice of termination when David Scott was dismissed, nor did they give payment in lieu. I cannot accept this argument. The

compensation package to which David Scott signed up included £2000 "as compensation for resigning my directorship and ceasing employment". This strongly suggests that, at the end of whatever bargaining took place, he was willing to accept the £2000 as covering everything that was due to him as a result of his dismissal. If that did not include a full 6 months' salary, it must be because he was willing to agree to a variation of the 1993 agreement. There is a hint in Brian Scott's affidavit that the agreement to this package was given under duress. However, there is no evidence from David Scott on this point, and I have difficulty in believing that he did not both accept, and understand the significance of, what he was signing at the time.

25. Finally, the Scott brothers' letter of April 1996 claims the 1993 agreement had been breached through repeated failure to deliver the stock. Since there is nothing about this in the 1993 agreement, I cannot accept this argument either.

26. In short, on the evidence before me, if Mr Darling (or the companies he represents) is in breach of the agreements it is only in respect of the share option. Now on their own admission, the Scott brothers agreed to assign their rights to Edenlist. I cannot interpret either the 1991 or the 1993 agreement as meaning that assignment would not take place until the Scott brothers had increased their shareholding. Indeed, in the context of these agreements, that would have been plainly absurd. It was clear that years might elapse before the Scott brothers took up their option, and one could hardly expect Edenlist to commit themselves to investing heavily in the exploitation of the invention during that time without actually having rights to the invention. The agreement to assign may have been conditional on agreement to the rest of the "package", but it was clearly not conditional on the share-option element of that package actually being taken up. The very fact that the Scott brothers agreed Edenlist should be named as applicant in the second GB application confirms this (and that is not weakened by the filing of the US application in the Scotts' own names, because that was merely meeting a requirement of US law). Thus once the 1991 package had been agreed, the Scott brothers had a commitment to assign the rights without waiting for the share option to be taken up. The 1993 variation did not alter this.

27. Now let me suppose for the moment that the Scott brothers' interpretation of the share option in the 1993 agreement is the correct one and that Mr Darling is in partial breach of the agreement through failure to honour the share option in full. Does that allow me to release the Scott brothers from their commitment to assign, which is what they have effectively asked me to do? The answer, I have concluded, is that I do not have the power to do this because breach of contract in circumstances like this is generally a matter for the courts, not the comptroller. The answer might possibly have been yes if Edenlist had failed to honour any part of their side of the bargain, because arguably that might have nullified the agreements completely. However, that is not the case. The company have honoured much of their side of the bargain. For example, they took over the prosecution of the applications and bore all the costs, employed the Scott brothers, made them directors and gave them a share in the company. If the Scott brothers feel Mr Darling is in breach of contract, they can take him to court and seek whatever relief the court might be prepared to give them. However, I suggest they should not assume a court will allow them to renounce the whole agreement on the basis of a *partial* breach by the other side.

28. Thus even if Mr Darling has failed to honour the share option in full, I find the Scott brothers are still under an obligation to assign and that the true proprietor of the GB patent is indeed Edenlist.

29. I must now turn briefly to section 30(6) of the Act, which says:

Any of the following transactions, that is to say -

(a) any assignment or mortgage of a patent or any such application, or any right in a patent or any such application;

(b) any assent relating to any patent or any such application or right;

shall be void unless it is in writing and is signed by or on behalf of the parties to the transaction (or, in the case of an assent or other transaction by a personal

representative, by or on behalf of the personal representative) or in the case of a body corporate is so signed or is under the seal of that body.

30. Is there a written assignment here, and if not, does that affect the outcome? The 1993 agreement comes close to a written assignment when it says "it is agreed and confirmed that the proprietary right to the system(s) is the sole property of Edenlist", but I doubt whether this does amount to a formal written assignment. Indeed, Mr Jones admitted as much when he conceded at the hearing that there was no written assignment of the rights in the patent. He argued, however, that this did not matter because there had been an assignment in equity and the Scott brothers were under a contractual duty to execute a formal assignment if called upon to do so. I accept this argument, and conclude that the absence of a formal assignment does not affect my decision.

David Scott's position

31. All that I have said so far applies to David and Brian Scott equally. However, for David Scott there is a further factor. The compensation package he signed on 3 May 1994 confirmed that he had relinquished "all design or proprietary rights to the offshore satellite television systems developed by [Edenlist]". In the context of this compensation package, I am satisfied that in signing this he understood he was relinquishing any rights he still had at that stage to the patents. Indeed, Brian Scott accepted this at the hearing. It is true that this document does not fully meet the requirements of section 30(6) in that it is not signed on behalf of Gardline, but even if I was wrong in everything I have found so far, I would have to find on the basis of this document that all of David Scott's rights to the patents had passed to Gardline.

Reference under Section 12(1)

32. I will now turn to the US patent. Section 12(1) reads:

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; or

(b) any of two or more co-proprietors of an application for such a patent for that invention may so refer the question whether any right in or under the application should be transferred or granted to any other person;

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.

33. The section 12 reference was made before the US patent was granted and thus meets the requirement in the preamble. The facts relating to the reference under Section 12(1) are the same as those relating to the reference under Section 37(1), and the parties have agreed that I should decide entitlement on the same basis. I therefore conclude for the reasons set out above that the rights in US Patent No 5457464 also reside with Edenlist.

34. Unlike the GB Patent, the US one is not currently in the name of Edenlist, so I now have to decide how to give effect to my finding. Clearly it will be necessary for an assignment from the Scott brothers to Edenlist to be executed. Mr Jones drew my attention to *Cannings' United States Application [1992] RPC 459* where a similar situation arose and invited me to follow the same course of action. In *Cannings*, the Hearing Officer already had what I might term a "model" assignment on file. He invited the successful party to draw up an assignment based on that model, and directed the unsuccessful party to sign it within a certain time. When the unsuccessful party failed to sign, he then authorised the successful party to sign on his behalf, having first ascertained that the US Patent Office would recognise this as a valid assignment. I am prepared to

follow a similar line in the present case. What appears to me to be a suitable model assignment is already on file as exhibit 17 to Brian Scott's statutory declaration, though it needs some modification as the US application has now been granted.

The rights in any "additional" matter

35. I now return to what I earlier described as a side issue: the question of who owns the rights in any matter that appears in the two patents but not in the priority document. Both sides appear to accept that such matter exists (and that can be confirmed by a quick comparison of the documents), though neither has taken me through the documents to identify the matter. Further, both sides appeared to accept that the additional matter was invented after Edenlist was created and the Scotts appointed as employees and directors.

36. Section 39(1) of the Act states:

Notwithstanding anything in any rule of law, an invention made by an employee shall, as between him and his employer, be taken to belong to his employer for the purposes of this Act and all other purposes if -

(a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or

(b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.

37. Whilst I was not given any detailed arguments on the matter, it seems to me that any rights in additional matter invented after the creation of Edenlist must, *prima facie*, belong to Edenlist by virtue of section 39(1), on two counts. Firstly, the Scott brothers were

employed specifically to assist with exploiting the invention - that was the *raison d'être* of the company's existence - so any invention they made could be expected to fall within subsection (a). Secondly, the Scott brothers were directors of the company, so any invention they made could also be expected to fall within (b). Thus I find that the additional matter makes no difference to the entitlement to the patents.

Conclusion

38. As a result of the reference under section 37, I find that Edenlist Limited are the true and sole proprietors of GB patent 2253948. As the patent already stands in Edenlist's name, no further action is necessary.

39. As a result of the reference under section 12, I find that Edenlist Limited are also the rightful owners of US patent 5457464. Since that patent currently stands in the names of David and Brian Scott, I order Edenlist Limited to deliver to David and Brian Scott within 14 days a form of assignment for the US patent. The wording should be consistent with exhibit 17 to Brian Scott's statutory declaration save that should refer to the US patent rather than the patent application. I further direct David and Brian Scott to execute the assignment within 14 days of receipt of the form. Should they fail to execute it, Edenlist are at liberty to come back to me for further directions.

40. I have two riders to these findings. Firstly, the registered proprietor of the GB patent is recorded as "Edenlist Limited". The section 12 action was launched, and the section 37 action opposed, in this name. However, there are hints in the evidence, and there were suggestions at the hearing, that the company name has changed to "Offshore Satellite Systems Limited". Without specific evidence about this, my findings have to be that entitlement rests with "Edenlist Limited". If this is no longer the company name, it is up to them to provide me with evidence to this effect, and I will then vary my findings accordingly. Secondly, neither side has yet had the opportunity to confirm that the wording I have suggested for the assignment is, in fact, appropriate to give effect to my findings. If either side feels it is inappropriate and cannot agree on something better with the other side, they are at liberty to refer their concerns back to me and I will then

consider whether to vary the wording. When doing so, I would of course take the views of both sides into account.

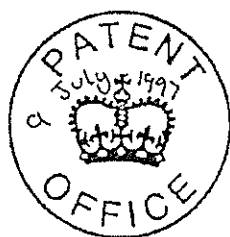
41. Finally, I must turn to the question of costs. As Edenlist have succeeded in their reference and the Scott brothers have failed in theirs, Edenlist are entitled to costs on both the actions. Accordingly, I order David and Brian Scott to pay Edenlist Limited £750 as a contribution to their costs. In reaching this figure, I have taken account of the fact that the two actions have been consolidated.

42. As this decision does not relate to matters of procedure, under the Rules of the Supreme Court any appeal must be lodged within six weeks.

Dated this 9th day of July 1997

P HAYWARD

Superintending Examiner, acting for the comptroller



THE PATENT OFFICE