

0174/93

PATENTS ACT 1977

IN THE MATTER OF a reference under Section 37(1)(a) by Profilex Limited in respect of EP(UK) Patent No 0174172 in the name of Peter Cartwright

DECISION

The application for the patent which relates to an access panel assembly, primarily for a suspended ceiling, was filed on 2 September 1985 in the name of Peter Cartwright claiming priority from British application No 8422186 filed on 3 September 1984 and the patent was eventually granted on 24 May 1989. On 16 March 1992 Profilex Ltd referred to the comptroller under Section 37(1)(a) the question whether they, rather than Peter Cartwright, are the true proprietors of the patent and, after proceeding through the usual evidence stages, the matter came before me at a hearing on 27 April 1993 at which Mr D J Micklethwait appeared as counsel on behalf of the referrer and Mr Cartwright was represented by his agent, Mr Adrian Chettle. Evidence for the referrer is given by Mr Coulson, the managing director of Profilex, and Mr R de Mello, the accountant and auditor for Panelform and Profilex; apart from his own evidence, evidence is also given on behalf of Mr Cartwright by Mr R Owen, his brother-in-law, Mr R Tait, a former business colleague and Mr N J Martin, a patent agent in the firm of Withers and Rogers.

The background to this dispute is that by late 1984 Mr Cartwright was seeking an opportunity to exploit his invention in respect of which he had already filed a patent application; he had also sought to register the word PANDOR as a trade mark in respect of access panels. At that time Mr Coulson, the managing director of Profilex was dissatisfied with the independent fabricators who were making access panels on his behalf and he came to an agreement with Mr Cartwright to set up a company known as Panelform Ltd to manufacture access panels for the referrer.

Mr Coulson's understanding of the agreement as set out in his evidence is that both parties would take a 50% share in the company; he would provide the new company with his design and business expertise as well as a full book of orders which the referrer had previously placed elsewhere, in addition to which the referrers' established reputation would facilitate the purchase of the necessary equipment. For his part, Mr Cartwright would provide the company with his services and technical expertise, together with the rights in the pending patent and trade mark applications. Panelform would bear the costs of presenting the patent and trade mark applications and would manufacture and market access panels, including the panel which is the subject of the patent, although the latter was never a substantial part of the company's production. Thus it is Mr Coulson's view that Panelform would own the patent, the PANDOR trade mark, and everything else involved in its operations as its exclusive property, that individual interests were determined by the respective share holdings and that neither party had any claim to any particular asset of the company.

Mr Cartwright's understanding of the agreement is essentially the same as that of Mr Coulson save for the question of the rights in the patent application. Mr Cartwright's belief is that, whilst he was associated with Panelform, the company would have the right to manufacture panels covered by the patent application without any royalty or licence payment but that he would retain the rights in the patent. There is no disagreement as to the rights in the trade mark PANDOR and, indeed, the evidence establishes that this was assigned by Mr Cartwright to Panelform in 1986 and, subsequently, by Panelform to the referrer in 1988.

By 1987 it had become apparent, at least to Mr Coulson and Mr Cartwright did not dissent, that Panelform and the referrer could operate more efficiently as a single entity and, in October of that year, the assets of Panelform were transferred to the referrer. Mr Cartwright received 15% of the shares in the referrer's company, Profilex, and was employed by the referrer initially as managing director and, later, as production director. This arrangement was unsuccessful and, after the failure of the parties to reach agreement on the separation of their interests, Mr Cartwright was dismissed by the referrer in March 1991. The crux of the

present dispute between the parties therefore hinges on whether or not there was an agreement between them in 1985 to transfer the rights in the patent from Mr Cartwright to Panelform.

In his opening remarks at the hearing Mr Micklethwait took me to paragraph 5 of the statement which reads:

"With reference to Section 37(5) of the Act, as the Patent has been granted for more than two years, the Referrer says it is clear from the facts set out above that the Registered Proprietor knew at the time of grant that he was not entitled to the Patent."

It was Mr Micklethwait's contention that this paragraph in the statement is superfluous because this is not an application on the ground that the patent was granted to a person not so entitled, which is what Section 37(5) is about; he accepted that Mr Cartwright was entitled to the grant but his client's case is that the granted patent had not been assigned in accordance with the earlier agreement and the present application is to give effect to that agreement.

In Mr Chettle's view, however, Section 37(5) says that the reference shall not be considered unless it can be shown that the proprietor knew when the patent was granted that he was not entitled to the patent and Mr Cartwright's evidence, together with that of his patent agent, Mr Wilson, establishes that Mr Cartwright was utterly convinced that he owned the patent. Thus, Mr Chettle argued, the referrer has to get through the Section 37(5) hoop. as it were, before the substantive matter of the ownership of the patent can be considered.

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."

and Section 37(5) says:

" On any such reference no order shall be made under this section transferring the patent to which the reference relates on the ground that the patent was granted to a person not so entitled, and no order shall be made under subsection (4) above on that ground, if the reference was made after the end of the period of two years beginning with the date of the grant, unless it is shown that any person registered as a proprietor of the patent knew at the time of the grant or, as the case may be, of the transfer of the patent to him that he was not entitled to the patent."

If I understood him correctly, it was Mr Micklethwait's contention that the words "not so entitled" in line 3 of Section 37(5) refer to entitlement to grant and that Section 37(5) can only be invoked in an action under Section 37(1)(b) when the question is whether the patent has been granted to the wrong person. Mr Chettle, on the other hand, based his argument on the words "not so entitled" in Section 37(5) referring to entitlement to the patent; in his view Section 37(5) is intended to be a bar on a late reference challenging the proprietorship of a patent and, therefore, is also applicable in the case of a reference under Section 37(1)(a) as in these proceedings.

In my view the exception in paragraph 37(5) beginning with the words "unless it is shown" support Mr Chettle's wider interpretation and since it is not in dispute that the present reference was launched more than 2 years after the grant of the patent, I accept Mr Chettle's argument that Section 37(5) is a hurdle which the referrer must overcome.

In the circumstances of this case, however, it seems to me that the determination of the dispute with respect to Section 37(5) goes with the determination of the substantive issue of the ownership of the patent and does not, in practice, present an additional hurdle to the referrer. If the referrer succeeds in persuading me that Mr Cartwright agreed in 1985 to assign the patent to Panelform, then it would follow that Mr Cartwright knew at the date of grant in 1989 that he was not entitled to the patent. If, on the other hand, the referrer does not succeed in his argument, he would not overcome the barrier of Section 37(5), nor would he be successful on the question of ownership.

Turning to the circumstances surrounding the agreement setting up Panelform, it was Mr Micklethwait's contention that Mr Coulson's version of events is inherently the more likely. Mr Coulson's understanding was that, in exchange for the rights in Mr Cartwright's patent and trade mark applications, the company would bear the costs of prosecuting the applications and Mr Cartwright would get 50% of the company. The patent and the trade mark would stay together with the company and, if Mr Cartwright left the company, he would still own 50% of the company and, consequently, derive 50% of any benefit from the exploitation of the patent and trade mark. In Mr Micklethwait's view, Mr Cartwright's account of the agreement whereby, in exchange for a royalty free licence under an untried patent, he would receive 50% of the company, the company would pay all expenses associated with the patent and trade mark applications, but leave him free to quit the company and keep the patent, terminate the licence and retain his half share in the company as well does not make business sense.

As evidence that Mr Cartwright intended to assign the rights in both the patent and trade mark applications to Panelform, Mr Micklethwait explained that the trade mark application was filed under Section 29(1)(a) of the Trade Marks Act as a mark intended to be assigned to a company about to be constituted, but since there is no corresponding provision with regard to a patent application, Mr Cartwright had no alternative but to file the patent application in his own name since, at the time, he was unemployed. The trade mark was assigned by Mr Cartwright to Panelform as would the granted patent have been had not a disagreement developed between Mr Cartwright and Mr Coulson.

The reason for the filing of the Trade Mark application under Section 29(1)(a) of the Trade Marks Act was not disputed by Mr Chettle; Mr Cartwright, he explained had no intention of exploiting the trade mark in his own name and expected to constitute a company, first with his brother-in-law, Mr Owen, or as things turned out, with Mr Coulson. Mr Chettle went on to say, however, that although Mr Cartwright accepted that the trade mark and the good will associated with it should pass to the company, the trade mark of course did not give any exclusive rights to the invention which was of great concern to him.

In Mr Chettle's view, and in contradiction of Mr Micklethwait's argument, Mr Cartwright's understanding of the agreement which would enable him to leave the company but retain the rights in the patent did make business sense. During Mr Cartwright's time with Panelform, the company had the right to make and sell the invention which enhanced the profits and reputation of the company and expanded its range of products; it is not surprising in Mr Chettle's view, therefore, that the company should bear the costs of prosecuting the application during this period, nor was it unreasonable for Mr Cartwright to take the right to the invention with him when he left the company.

Moving on to the merger of Panelform into Profilex in 1987, Mr Micklethwait explained that there was no disagreement that this had little direct bearing on the question of the assignment of the rights to the patent under the 1985 agreement when Panelform was set up. It was nonetheless important in Mr Micklethwait's view, however, because it showed that Mr Cartwright saw Panelform as being his company. In support of this argument Mr Micklethwait took me to paragraph 16 of Mr Cartwright's declaration where, in referring to the debts of Panelform at the time when the merger with Profilex was being discussed in 1987, Mr Cartwright says "I was warned by the Financial Controller of the Referrer that I stood no chance of being paid" It was not Mr Cartwright who stood to lose from the non-payment of debts, said Mr Micklethwait, but the company.

Mr Micklethwait derived further support for his view that Mr Cartwright identified closely with Panelform from the evidence of Mr Tait, a former works manager of Profilex, who states that it was his understanding during the time when he was working at Profilex between 1989 and 1991 that the patent belonged to Mr Cartwright and who says in paragraph 4 of his

declaration "It is my understanding that Cliff Coulson arranged with Peter Cartwright that Peter's old company Panelform would re-open". Although Mr Micklethwait recognised that Mr Tait may not have been correct in every detail, and in particular it was not 'Peter's old company' but a 50% share in that company, his general understanding of the situation was nevertheless correct which was that certain of the assets of Panelform, including the patent, would go to Mr Cartwright under the demerger proposals.

In Mr Chettle's view it is not surprising that Mr Cartwright regarded Panelform in a rather proprietorial sense since, as Exhibit F of Mr de Mello's evidence shows, the security for the company's overdraft facilities was a second mortgage on Mr Cartwright's home together with a joint and several guarantee by the directors. Furthermore the evidence shows that, prior to the merger in October 1987, the major debtor to Panelform was in fact Profilex and Mr Cartwright's 50% shareholding in Panelform was therefore worth 50% of a considerable net debt which was why he agreed to the merger.

Mr Micklethwait argued that the further reason why the merger of Panelform and Profilex in 1987 is important is because it led to a proposal and counter-proposal (Exhibits CBC7 and CBC8 respectively) for a demerger in 1991. Mr Cartwright's proposal in CBC7 refers to "PANDOR patent to be returned to PTC (meaning Mr Cartwright) with freedom to market to such as Norsk Hydro". In Mr Micklethwait's view this, together with Mr Tait's evidence, is a clear acknowledgement that there were rights to be returned and he dismissed Mr Cartwright's statement that he intended to refer to the PANDOR trade mark as being untenable since Mr Cartwright is an inventor who has patented various devices and is not likely to confuse patents and trade marks. In CBC8, which is Mr Coulson's counter-proposal for the demerger, he also refers to the PANDOR patent as an asset in the ownership of Profilex and says in his evidence that it was not suggested to him at the time that it was the trade mark rather than the patent which was the property in question.

According to Mr Coulson in his reply evidence, the PANDOR trade mark was always used in relation to the patented product and the two went together. It would not have been in the interests of the company to establish a trade mark in respect of a product of which it would have to cease production if Mr Cartwright left with the rights under the patent nor, in his

view, would it have been sensible for Mr Cartwright to put himself in the position whereby he kept his patent but could no longer market it under the trade mark which he had devised and helped to establish.

In paragraph 17 of his declaration Mr Cartwright counters this argument by saying that, at the time, he was under very considerable stress. Mr Chettle did not accept that Mr Cartwright was well versed in intellectual property matters and might be prone to using terms such as patent, trade mark and design in a rather loose and interchangeable manner. Indeed, Mr Chettle added, it is entirely consistent that Mr Cartwright did intend to refer to the PANDOR trade mark, which was only one of a number of trade marks which could have been used for that particular panel, instead of the patent in making his proposals for the demerger; he wished to retain the freedom to market and to continue to sell to Norsk Hydro, which was one of the companies which he had originally brought to Panelform and was aware that, if he left the referrer's company, he may be under some obligation not to contact customers of Panelform or Profilex. It was not surprising in Mr Chettle's view that Mr Coulson's counter-proposal should more or less follow Mr Cartwright's proposal. Whilst Mr Chettle accepted that an over-meticulous analysis of Mr Tait's evidence would not be particularly constructive, in his view and in contrast to Mr Micklethwait's interpretation, it shows that Mr Tait was under the impression that the patent application belonged to Mr Cartwright and that, when he left, Mr Cartwright would manufacture panels according to the patent in the separate company.

Mr Micklethwait then went on to refer to Mr Cartwright's evidence in which he explains that, during his employment with a previous company, he had obtained a patent for an earlier invention but, when he left the company, he lost all rights in the patent and was determined not to allow that situation to occur again. Mr Micklethwait explained that the circumstances were different in that case because, when Mr Cartwright made the earlier invention, he was already a director and shareholder of the company whereas, in the present case, the application had been made before the business venture with Mr Coulson had begun. Dealing with the evidence of Mr Wilson, Mr Cartwright's patent agent, who says in paragraph 3 of his declaration "I advised him that to avoid problems in the future he should place his new patent application in his own name", Mr Micklethwait argued that this does not take the

matter forward because, at the time of making the application, Mr Cartwright was unemployed and not involved with any company at all, although he did recognise that Mr Cartwright does produce evidence that he was considering the setting up of a business with his brother-in-law, Mr Owen, in order to exploit the patent.

Although he did not disagree with Mr Micklethwait's explanation that Mr Cartwright was not entitled to the earlier invention made whilst he was in the employment of Universal, Mr Chettle went on to say that, as far as Mr Cartwright was concerned, he had made an invention over which he had lost control and was determined in the future to try to keep his inventions in his own name. This is born out, he explained, by the evidence of his patent agent, Mr Wilson, who says in paragraphs 3 and 4 of his declaration

"I recall the discussions I had with Mr Cartwright during 1985 and in which Mr Cartwright told me of the loss of his first invention to a company with which he was associated. I advised him that to avoid problems in the future he should place his new patent application in his own name, there being no impediment to this course of action. I also recall that Mr Cartwright went into business with another person shortly after the application was filed, but I know that in view of our discussions and Mr Cartwright's previous experience, that it would be extremely unlikely that he would agree to assign his patent application to another without detailed consideration."

Mr Chettle concluded that no evidence exists to support the argument that an agreement was in place that the patent, when granted, should be assigned to the referrer. He emphasised the point that Panelform was set up to manufacture access panels for the referrer who had found that the panels being made for him were of rather high price and the quality and reliability were unsatisfactory. It was not the case that Panelform was set up for the sole purpose of exploiting the patent and the manufacture of panels according to the patent did not form a substantial part of the business. He also drew my attention to paragraph 11 of Mr Cartwright's evidence where he says:

"I brought to Panelform my technical expertise and several customers whom I knew from my days at Universal; those customers wanted access panels (including my new access panel) and general sheet metal work..... It was understood that Panelform would make and sell panels according to the second invention (ie the patent), but it was never agreed that Panelform should have any right to the application leading to the patent. My understanding was whilst I was associated with Panelform, Panelform should have the right to manufacture panels according to the second invention without any royalty or licence payment; however Panelform would settle bills connected with the patent application/patent."

Had the parties agreed that the rights in the patent application should be assigned to Panelform at the time when the company was constituted, added Mr Chettle, the assignment could have taken place at the time or at any time subsequently until the disagreement between the parties occurred in 1991, unlike the trade mark application.

In assessing the evidence in this case there does not appear to be any significant disagreement between the parties, with the exception of the right in the patent application, as to the intentions of either side or in the contribution which each made to the company which they set up.

Mr Cartwright had invented an access panel and wished to benefit from its exploitation and, to this end, had already taken steps to secure a patent and a registered trade mark.

Mr Coulson's intentions are succinctly set out in paragraph 4 of his first declaration where he says:

"independent fabricators who were making access panels were asking an unreasonably high price in view of the quantity and reliability of orders produced for the Referrer. It occurred to me that Mr Cartwright's skill as a sheet metal worker would be of assistance in the production of access panels for the Referrer. Thus I proposed to Mr Cartwright that we should set up a company to manufacture access panels for the Referrer"

Equally, it is not disputed that Mr Coulson provided Panelform with his design and business expertise, a full book of orders and a reputation which facilitated the purchase of equipment, and that Mr Cartwright brought his services and skills as a sheet metal worker, benefits under his patent and trade mark applications and put up his home as security for debts incurred in setting up the company.

While it is Mr Coulson's view, according to his evidence, that Mr Cartwright's contribution to Panelform would have been insufficient to merit a 50% share in the company without agreement to assign the right in the patent, on the face of it both sides in 1985 stood to benefit from the venture upon which they were embarking, although in the event the manufacture of the panels covered by the patent application never formed a substantial part of the production of Panelform. I do not think that Mr Coulson's view of itself is conclusive because it is not given prominence in his reasons for setting up Panelform, which was to secure a supply of low cost and reliable access panels, and the manufacture of panels according to the patent might be regarded as somewhat incidental to his objectives. As for the business transaction which took place in 1985 and the agreement which was reached, there is no direct evidence and, as Mr Micklethwait put it, I am left to consider which account seems the more probable in the light of the surrounding circumstances.

There is evidence that, before the agreement with Mr Coulson, Mr Cartwright had lost control of an earlier invention. This is of no direct relevance in these proceedings and both Mr Micklethwait and Mr Chettle shared the view that Mr Cartwright may never have been entitled to the patent in respect of that invention. Nevertheless the experience left Mr Cartwright determined to retain control as far as possible over any future inventions he might make and this intention is supported by the evidence of his patent agent, though it is not clear that this was explained to Mr Coulson at the time. For his part Mr Coulson explains that it would not have made business sense for him to agree that only the trade mark and not the patent would become the property of the company but, if he set such store by the assignment of Mr Cartwright's patent to Panelform, it is perhaps surprising that he should leave Mr Cartwright in any doubt of this. The fact that the trade mark PANDOR was assigned to Panelform by Mr Cartwright may be seen as evidence of an intention to do the same with the patent and, as Mr Micklethwait argued, would make business sense from

Mr Coulson's point of view, but in view of Mr Cartwright's earlier experience, even though it may have been based on a misunderstanding, it could equally well be regarded as evidence of Mr Cartwright's resolve to distinguish between the trade mark and the patent and to retain control over the latter.

Turning to the matter of the separation of the parties interests in 1987, Mr Cartwright's proposal in Exhibit CBC7 that inter alia "PANDOR" patent to be returned to PTC" could be seen as evidence that Mr Cartwright considered that the rights in the patent belonged to Panelform. This certainly does not help Mr Cartwright's case and he explains that the error in referring to the patent instead of to the trade mark was made at a time of stress; since there is no doubt that the trade mark belonged to the company and, according to Mr Cartwright, he believed that he had retained the rights under the patent application, this appears to be a plausible explanation, the more so perhaps in view of the apparent informality of the 1985 agreement and the fact that, strictly speaking, PANDOR relates to the trade mark and not to the patent.

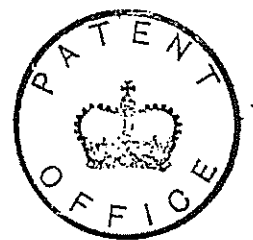
Mr Micklethwait also argued, relying on Mr Tait's testimony, that Mr Cartwright identified very closely with Panelform and, as a result regarded his own interests as synonymous with those of Panelform. I have no doubt that Mr Micklethwait is right but I cannot place great weight on Mr Tait's evidence since both Mr Micklethwait and Mr Chettle accepted that Mr Tait is not skilled in patent or trade mark matters and I am of the view that his beliefs, though genuine, are based on a loose rather than factual understanding of the interests of the parties.

It seems to me that, since the trade mark was assigned to Panelform as long ago as November 1986, there has been ample opportunity to assign the patent application also if, indeed, it was part of the original agreement in 1985 and it was Mr Cartwright's intention to do so. It was not necessary for the assignment to be deferred until the patent had been granted and, even if this provision had been a part of the original agreement for some reason, it could have occurred following the grant of the patent in May 1989 up to the time when Mr Cartwright was dismissed by the referrer in March 1991. Although in paragraph 4 of his statement Mr Coulson states that he has since asked Mr Cartwright to assign the patent,

there is no evidence that Mr Coulson was pressing for the patent or the patent application to be assigned to Panelform or to Profilex between 1985 and March 1991 which one might expect if the matter was of importance to him, nor is there any evidence that Mr Cartwright declined to do so; indeed there is no indication that the ownership of the patent was discussed by the parties after the original agreement in 1985 and before the proposal to separate their interests early in 1991.

In conclusion, Mr Micklethwait has failed to persuade me that Mr Coulson's account of events is more probable than Mr Cartwright's. This reference therefore fails and I order that the referrer, Profilex Limited, pays to the proprietor of the patent, Peter Cartwright, the sum of £600 (six hundred pounds) by way of contribution towards his costs.

Dated this 7 day of JUNE 1993



P J HERBERT
Superintending Examiner, acting for the Comptroller

THE PATENT OFFICE