

Neutral Citation Number: [2012] EWPCC Civ 39
IN THE PATENTS COUNTY COURT

The Rolls Building
7 Rolls Buildings
London, EC4A 1NL

Monday, 11th June 2012

Before:

HIS HONOUR JUDGE BIRSS QC

Between:

	DESTRA SOFTWARE LIMITED	<u>Claimant</u>
	- and -	
	(1) COMADA (UK) LLP (2) COMADA LIMITED (3) MAT SERVICES LIMITED (4) GERTRUD KEAZOR (5) CHRISTOHER JOHN MITCHELL (6) ROBERT DAVID MITCHELL	<u>Defendants</u>

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MR. MICHAEL HICKS (instructed by **Waterfront Solicitors LLP**) for the **Claimant**

MR. JAMES ABRAHAMS (instructed by **Macfarlanes LLP**) for the **Defendants**

Judgment**JUDGE BIRSS:**

1. This is an application to transfer the case before me to the High Court. It arises as follows. It is a software copyright case. The software is concerned with fund management. The claimant claims copyright in the software. It was created between about 2003 and 2005 as a result of an arrangement between the claimant and some of the

defendants. The claimant wrote the software and was paid £30,000 and given 5% of the shares in the company which is the second defendant. The claimant says that the effect of what happened was that although there was a licence to use the software, it was limited in various ways. The claimant says that the defendants have exceeded the terms of that licence and are using the software extensively.

2. The defendants' defence is that there was a written agreement which permitted the defendant to do everything they have done. It is agreed that if the written agreement was entered into then the defendants win. However, the agreement was not signed and the claimant says it was never agreed to either expressly or by conduct.
3. The defendants also say that by necessary implication from the circumstances they own the copyright in equity or have an implied licence to do all the things that they have been doing. This will involve consideration of the factors which were discussed by Lightman J in the well known *Robin Ray v Classic FM* case, [1998] FSR 622. The defendants also submit that the software today does not retain any of the original material which was created by the claimant. The software has been re-done and upgraded over the years.
4. Although not exactly a defence, an important part of the defendants' case before me is that the claimant's case is unclear in various respects. It is said that it is not clear what the claimant's response is to various parts of the defence nor is it clear exactly what software the claimant claims copyright in and it is very unclear which of the defendants' software or programs within it are said to be copies. In respect of this latter point that is something relatively common in computer software copyright cases and it usually leads to a measure of staged disclosure and pleadings in order to resolve exactly which bits of the material the defendant is using, are said to be infringing.
5. Before me Mr. Hicks appears for the claimant, instructed by Waterfront Solicitors, and Mr. Abrahams appears for all the defendants, instructed by Macfarlanes. I will call the defendants Comada unless the context otherwise requires. The claimant started the case in the Patents County Court and the defendants apply to transfer it to the High Court.
6. The evidence before me includes the statement of Mr. Steward of the defendants' solicitors in support of transfer. He explains the importance of the case to the defendants and explains that the complexity makes it not appropriate in his opinion for the case to be proceeding in the PCC.
7. There is a statement from Mr. Hughes. He is the moving spirit behind the claimant. He explains the finances of the claimant company and his own finances. It is clearly appropriate for him to deal with his position given that the company, Destra, is really just a vehicle for Mr. Hughes' own work as a computer programmer. He says he simply cannot afford to litigate in the High Court and will not get access to justice if this case is transferred. He estimates the value in terms of damages to be well below £500,000.

8. I have a statement from Mr. Strickland. He is a solicitor instructed by the claimant. He addresses what Mr. Steward said. He contends that the issues are not as complex as is suggested and can be done in the Patents County Court. In particular Mr. Strickland raises a point to say that what can readily be done in the Patents County Court is to try, as a preliminary issue, the issue of ownership and the licence. Mr. Strickland also suggests that there is a point of policy. He says that software companies are usually SMEs and that, as SMEs, they need access to justice in intellectual property cases. He says it must be possible to take a software copyright case to trial using the procedures in the Patents County Court. He also points out that at an early stage the defendants' solicitors themselves suggested that there should be a declaratory action, declaratory essentially that the defendants own the relevant copyright. That is what is now suggested to be the preliminary issue proposed by the claimant.
9. Mr. Steward in reply challenges the claimant's position in relation to funding arrangements and whether it or Mr Hughes can really afford either the High Court or the Patents County Court. He suggests that it is not clear how if, for example, a preliminary issue was ordered and the defendants lost, it would be possible for the claimant to be able to fund a High Court action afterwards even on a CFA. (The reason for mentioning this is that one of the suggestions in the evidence from the claimant was that the CFA approach might be something that might happen in the relevant circumstances.) He takes issue with the account given in the evidence as to the origin of this dispute and the suggestion in correspondence by the defendants that a declaration will sort things out. He points out that just because it was suggested at one stage does not mean that the court should order a preliminary issue at this stage. In my judgment he is right about that.
10. The value of the claim for the defendants is dealt with. Mr Steward said it is much more than a question of damages to the claimant because the claim goes to the heart of the defendants' business. Again his position is that the matter is much more complex than is suggested and will take a number of days to try.
11. The principles to be applied have been dealt with in a number of decisions of mine and a judgment of Kitchin J, as he then was, in the High Court. I refer in particular to paragraphs 17 to 19 of the *Comic Enterprise Ltd v Twentieth Century Fox Film Corp.* [2012] EWPCC 13 where I state as follows:

"17. The principles applicable to the Patents County Court as presently constituted were addressed by me in my judgment in *Alk-Abello v Meridian Medical Technologies* [2012] EWPCC 14 and also in *A.S. Watson v The Boots Company* [2011] EWPCC 26. They were also considered by Kitchin J (as he then was) in the High Court in *Caljan Rite-Hite v Solvex* [2011] EWHC 669 (Ch).

18. After dealing with the detailed legislation and various older cases I summarised the factors to be considered in paragraph 30 -

32 of *Alk-Abello* as follows:

'30. Pulling the various factors together, the points to consider are:-

i) the financial position of the parties (s289(2) 1988 Act). This includes but is not limited to considering whether a party can only afford to bring or defend the claim in a Patents County Court (para 9.1(1) Practice Direction 30). This factor is closely related to access to justice. The Patents County Court was set up to assist small and medium sized enterprises in enforcing and litigating intellectual property disputes. Guidance on the nature of these enterprises can be found from the Commission Recommendation 2003/361/EC.

ii) whether the claim is appropriate to be determined by a Patents County Court. This involves considering:

a) the value of the claim, including the value of an injunction and the amount in dispute. (Para 9.1(2)(a) Practice Direction 30 and CPR 30.3(a))

b) the complexity of the issues (para 9.1(2)(b) Practice Direction 30 and CPR 30.3(d))

c) the estimated length of the trial. (Para 9.1(2)(c) Practice Direction 30). Related to this is CPR 30.3(b) - whether it would be more convenient or fair for hearings (including the trial) to be held in some other court.

iii) the importance of the outcome of the claim to the public in general (CPR 30.3(e)) albeit that a case raising an important question of fact or law need not necessarily be transferred to the Patents Court (s289(2) 1988 Act).

31. A factor which does not play a role is the one in CPR Pt 30.3(c) (availability of a judge specialising in the type of claim in question) since specialist judges are available in both courts.

32. Once those factors are considered I must bear in mind what sort of cases the Patents County Court was established to handle and that its role is to provide cheaper, speedier and more informal procedures to ensure that small and medium sized enterprises, and private individuals, were not deterred from innovation by the potential cost of litigation to safeguard their rights. The decision turns on what the interests of justice require, taking into account

both parties interests and interests of other litigants.'

19. It is quite obvious but bears emphasising that each case must be determined on its own facts. It also bears emphasising that the overriding objective is to deal with cases justly (see in this context Kitchin J in the *Caljan* case) and that the proper administration of justice is also a factor such that the parties wishes are not necessarily determinative."

12. I also refer to paragraphs 20 to 24 where I dealt with the position of SMEs. Paragraph 24 states:

"So what is the court to do when faced with a small claimant suing a large defendant? One thing is plain. As I have said already each case depends on its facts. A small claimant does not have an unfettered right to stay in the PCC regardless of the nature of the case any more than a large defendant has an unfettered right to demand that it be sued in the High Court."

13. I was also reminded of what Kitchin J said in the *Caljan* case, that the PCC procedures are a package and should be taken as a whole. I am reminded also that that was a case which was kept in the High Court. One important reason was that it did not appear to be one which could be kept within two days (Paragraph 27 of Kitchin J's judgment). Two days is more or less but not exactly a limit in the Patents County Court.

14. I was also reminded of what I said at paragraph 36 of the *Watson v Boots* case as follows:

"The fact that this case is likely to take substantially longer than 2 days to hear is an important factor which points in favour of the High Court both inherently and because it provides an indication of the share of the resources of the PCC which this case will occupy."

15. I consider the factors in turn. First the financial position of the parties. The claimant is clearly a small company, plainly it cannot afford to litigate in the High Court. Mr. Abrahams says that the claimant -- it does not really matter whether we are talking about the claimant company or Mr. Hughes -- cannot really afford to litigate in the Patents County Court either. I do not accept that submission. It seems to me that the evidence of Mr. Hughes is that he can afford to take this case to trial in the PCC on a streamlined and trimmed down basis but it is plain that he cannot afford to litigate in the High Court.

16. Mr. Hicks submits that from the claimant's point of view this case is unlike the *Caljan* case in which the parties could litigate in either. In this case, Mr. Hicks submits, it is the

PCC or nothing from the claimant's point of view. That seems to me to be correct.

17. The defendants' position is that they are well able to litigate in either forum and in particular they are well able to litigate in the High Court. Mr. Hicks points out that I have no evidence from them about their size and that is true. Perhaps they are SMEs as well, I do not know. I can assume that they can litigate in either forum since they obviously wish to go to the High Court.
18. On balance it seems to me the financial position of the parties is a factor favouring the Patents County Court.
19. What about the value of the claim? The claim is clearly very important to the defendants' business and if they lose and if they are wrong when they say that Mr. Hughes' material has now been written out of their software, then the injunction which Mr. Hughes is claiming will, in effect, shut down their business.
20. Mr. Abrahams compared this to the *Liversidge v Owen Mumford* [2011] EWPC 34 which I mentioned in my judgment in *Comic Enterprise* in which a patentee gave up a claim to an injunction as part of a way in which he proposed the case would be suitable to stay in the Patents County Court. In my judgment the analogy breaks down. In that case, that is to say in *Liversidge*, it was clear that an injunction would have major financial consequences for the defendant. In this case even if the defendants lose the issue of ownership and licensing and infringement they have a case that the material Mr. Hughes was responsible for has been written out of their software. If they are correct then the injunction will not shut down their business. I also remind myself that I have no figures for the value of the business in question.
21. I accept that if the defendants lose on every point, including the point about the material being written out of their software, that would be catastrophic for the defendants' business. As I say, I do not have a feel for what the financial scale of that would be. This is software which it took approximately one man-year or so to write and Mr. Hicks values that sort of software at around about £100,000 or so. That is a very rough approximation of its worth.
22. Taking the value of the claim overall it seems to me that it is not a strong factor in favour of the High Court. The defendant could have said: here is a business with £10s or £20 millions or even more worth of turnover which is at real risk of being shut down. I have no such evidence. The best I can do is to say that it is a factor that is a bit, but not strongly, in favour of the High Court. It is an important case to the defendants and I recognise that.

Complexity of the issues

23. This is the major battle ground before me. Mr. Abrahams broke the case down into seven issues. The first question is what software exactly is in dispute? What is MATware as described by the claimants? Mr. Abrahams submits that it is not clear exactly which of his clients' software is accused in this case and I agree. That is a matter, however, which will obviously need to be sorted out one way or the other.
24. The second issue is the development of something called the Destra Package. This relates to the history. The allegation from the claimant is that Mr. Hughes developed something called the Destra Package between about November 2003 to March 2004. It is software which, the claimant says, was then used to make the software which it is common ground was indeed created. I will call that latter software the C# code. The development of this Destra Package is not admitted and it is clearly a factual matter which would need to be investigated.
25. The third issue is the development of the MATware software itself. In other words the C# code. This is the major work in which copyright is claimed by Mr. Hughes. It is clear on the pleadings that all the C# code was produced by Mr. Hughes. There were three other people involved at the relevant time, they are the three named defendants in this case. It is clear also in the defence that although a good number of further people are mentioned in terms of the development of the defendants' software, they all came after the event.
26. However, the real issue is how much of the C# code which was written by Mr. Hughes was created by converting earlier code from a project called Fund Nexus. That code was written in a language called Delphi. How much of it was converted and how much of the C# code is new material which was written by Mr. Hughes? The extent to which the code was made by conversion has a bearing on the issues in this case. That is clearly a matter which will need to be sorted out and may well lead to disputes.
27. The fourth issue is the subsistence of copyright. Although, if I may say so from looking at this case and applying a bit of common sense, it is highly likely that there must be material in which copyright subsists. Of course that level of generality is not sufficient for a case like this and it may well be that there are bits of code which Mr. Hughes did write in which no copyright subsists. Until we can see it all and work out exactly what happened and the question of conversion from Delphi it is clear that there will be an issue on subsistence of copyright. Nevertheless, it does seem to me in the end there is bound to be some copyright work in this case.
28. The fifth issue is the licensing and ownership question, that is the matter of the unsigned contract and the issues arising from *Robin Ray v Classic FM*. An estoppel is pleaded arising from the same circumstances. This clearly will involve issues of fact and disclosure. Mr. Hicks submits it relates to a relatively narrow time frame. That is essentially the period up until July 2005. There is no question that this is a key area of dispute between the parties.

29. The sixth issue was a question of common design. It is pleaded that all the defendants are liable as between the others, pursuant to a common design to commit the acts complained of. Those issues can be factually complex and Mr. Abrahams submits it will be a complex question in this case. Mr. Hicks on the other hand submits that the matters are in fact largely agreed, although, of course, the consequences are not. Mr. Hicks points out that it is agreed that the three human defendants essentially were managing the process in question and that the relationship between the companies is essentially admitted. Whilst I see what Mr. Hicks says, it seems to me that Mr. Abrahams is right to say that this is capable of being a complex factual matter.
30. Seventh and very importantly is the question of infringement. Mr. Abrahams submits and I accept that his clients' software has changed significantly over time. It will be necessary to get the various versions of the software out and see how the changes have gone. This is important because, as I have already said, the defendants' position is that Mr. Hughes' code was gradually written out in various ways over time. Accordingly, for the sake of argument, and I should say this is a hypothetical example simply to make the point, it may well be that the software that was being run by the defendants originally back in the very early part of 2006 consisted largely or importantly of code compiled from Mr. Hughes' C# software. However, over time, if that has all disappeared, it will be necessary to trace through and see what has happened.
31. Mr. Abrahams says that as a whole the claim is unsuitable for the Patents County Court. Mr. Hicks says the claim is not as big and complicated as the defendants make out and as a fallback he presses the idea of a preliminary issue in relation to issue five, the ownership and licensing.
32. Still on the question of complexity Mr. Abrahams submits that this case has been run so far as if it is a High Court case. In that respect he is echoing a factor I took into account in the *Comic Enterprises* case.
33. It seems to me that the position is as follows. It is plain that the infringement issue is capable of being factually complicated. Running through time there may be many different versions of the software. One could look at it once a year over a period of seven years. There are, I think I am right in saying, six or seven platforms now being run by the defendants or possibly more so one can multiply the number of years by the number of platforms and say, well, one is looking at a good number of different versions of the system overall. I then remind myself the case is not simply about the system overall but about individual programmes which make up the system. One can see why, looked at in that way, this is capable of being highly factually complicated.
34. However, in fact at the moment we do not know whether this case will be anything like as complicated as it might seem. That will depend on the process of disclosure and rounds of pleadings which are inevitable in a software copyright case. Although it sounds complicated, in fact it is inevitable that copyright cases of this kind have to be

looked at this way. They do require more management than other intellectual property cases.

35. Does that mean that the case is not suitable for the Patents County Court? It seems to me that although I do not regard it as a strong point, Mr. Strickland's policy has a role to play there. The sort of staged case management is inevitable in software copyright cases. People that create software are often SMEs. I reject the idea that as matter of principle these sort of SME copyright cases, because they need staged case management, inherently provides a strong reason to transfer them to the High Court. It is a factor but if it was taken too far it would mean that it would be impossible for an SME in the software industry to get access to justice.
36. On the other hand, it seems to me the preliminary issue in this case is plainly a case which could be done using the PCC procedures. I have already heard one case based on the *Robin Ray* principles in the Patents County Court. Looking at the witnesses there will be clearly be a number of live witnesses. There will need to be some cross-examination and some disclosure, but as far as I can see from what I have been told of the case and knowing how these cases go I would be very surprised if this could not be done within two days and still allow both sides to have a full ability to air their case before the court.
37. Mr. Abrahams says it would still be complicated and there would need to be disclosure of internal documents in order to understand the context. I agree, it will require disclosure, I think I have said this already, and factual evidence and I take that into account. However, as I have said, it seems to me the preliminary issue is a matter which could certainly be done in the Patents County Court.
38. Overall, where does complexity leave us? This case overall may be too large and complicated to fit into the Patents County Court. The preliminary issue on the other hand, in my judgment, will fit within the Patents County Court.
39. What about the length of trial and the overall administration of justice? Well, I have already said that the ownership issue is a matter which can be done in two days. Overall the cases may well take more and it will require significant management.
40. What about the importance of the outcome? I recognise the case is important to the defendants but this case does not raise important general questions of law or fact which have a wider public importance.

Overall

41. As I have said before, it is clear that this case is important to the defendants. It is

capable of going to the heart of their business. However, I also bear in mind the defendants' own position that the impact of this case on their business today may well be very low given that they have written out Mr. Hughes' software. I am not surprised by that given that this dispute has been rumbling since 2005. One might well imagine that a prudent company in the defendants' position or companies will take that sort of approach. It may be that this case will turn out to be about money only and I have no basis to say that if it is it will put any pressure on the damages cap in the Patents County Court. From the point of view of what it would cost to develop this software the case is worth well below £500,000.

42. I reject the submission that the claimant has run this case as a High Court case in the same way as was done in *Comic Enterprises*. Although I can see some elements of that behaviour by the claimant, it seems to me that the suggestion of hearing a preliminary issue in these proceedings gives the lie to that argument. That is a practical way of cutting down on the costs on the issues. It is efficient because if the claimant loses that is the end of the case. They will avoid spending money on issues which may never need to be determined and which are potentially costly and complex.
43. What if the defendants lose the preliminary issue? If the defendants lose the preliminary issue then since it seems to me to be clear that the defendants did use some of Mr. Hughes' software at least at the early stages, after all that is what they were paying for, if it does turn out that contrary to their case on issue five, that use was unlicensed then, in my judgment, the complexion of this whole dispute changes. Whether the rest of the case would need to go to the High Court or not or whether it will settle remains to be seen.

A preliminary issue?

44. I remind myself of the factors mentioned by Neuberger J, as he then was, in *Steele v. Steele* (judgment on 27th April, 200, Chancery Division). There he was dealing with questions of preliminary issues and was certainly making it clear that he was not proposing to lay down binding guidelines. Nevertheless he set out some useful factors to take into account.
45. The first one was whether the determination of the preliminary issue will dispose of the whole case or at least one aspect of the case. It is clear that this preliminary issue would dispose of at least one aspect of these proceedings and is capable of disposing of the whole thing.
46. Another was whether the preliminary issue will significantly cut down on the costs and time involved in pre-trial preparation. In my judgment it would.
47. Two more factors relate to whether there a preliminary issue of law, which this is not and

are therefore not relevant.

48. Factor (e) was whether the determination of preliminary issue would unreasonably fetter either the parties or the court in achieving a just result. I do not believe that is the case in this case.
49. Factor (f) was the risk that an order will increase the costs or delay the trial and the prospects of an order may assist settlement. It seems to me that that factor is in favour of preliminary issue in this case. The preliminary issue will not increase the costs. It may delay the trial of the infringement issues but it will certainly speed up the trial of the question of ownership and licensing which it seems to me to be a crucial part of this dispute.
50. Factor (g) is the point that the more likely it is that the issue will have to be determined by the court the more appropriate it is to have it determined as a preliminary issue. That factor is firmly in favour of dealing with this point as a preliminary issue since it will obviously and necessarily have to be decided in this case one way or the other.
51. Factor (h): the risk that the determination may lose its effect by subsequent amendments to the statement of case. I regard that as highly unlikely to the point of vanishingly improbable.
52. Factor (i): whether it is just and right to order the determination of a preliminary issue. That goes to the general factors that I am considering.
53. It seems to me, bearing all those factors in mind, irrespective of whether this was a case in the High Court or the PCC, the preliminary issue which has been proposed by the claimant would be appropriate. As I have said before this preliminary issue is one which will be eminently suitable to be determined using the PCC procedures.
54. The other factor I bear in mind which is extremely important is access to justice. Mr. Hughes cannot litigate in the High Court. If I transfer this case it seems to me that that will deny him justice. On the other hand, if I allow the preliminary issue in the PCC then the matter can be tried properly and fairly from the defendants' point of view. They will have the key issues in dispute tried fairly, properly and proportionately.
55. The other issues in Mr. Abrahams's list may never arise or they may need to go to the High Court rather than the PCC. That remains to be seen.
56. What happens to the costs cap in a preliminary issue case? It seems to me the position is clear. This will be a trial and the PCC stages that apply to and include a trial will apply. I realise that that means that if the rest of the case goes forward in the PCC one could

end up with two cost caps on one issue of liability. That seems to me to be inevitable as a result of ordering preliminary issues and needs to be taken into account. If that is the right way for this case to go then, in my judgment, that is the correct way to approach the costs cap.

57. I will direct that the ownership and licensing issue will go forward in the Patents County Court to be tried as a preliminary issue. I will require, among other things, that the claimants will either plead a reply or file a witness statement on the issues in the preliminary issue early on from now on and I will hear the parties on that question and in the matters of detail as how to bring this case forward. Accordingly, the application to transfer is refused.