AN INTELLECTUAL PROPERTY DISPUTE

David and Jonathan were two out of five directors of Saul Limited, a privately owned engineering company. They owned no shares in Saul Limited. David was a highly successful Sales Director and Jonathan was a very successful inventor of new products for the business (Research and Development Director). David decided to seek his future elsewhere, having told the board he was going to be doing something else completely different to the business of Saul Limited. He worked out his 3 months' notice and left with a warm goodbye and wishes for good luck.

Shortly after he left, Jonathan also left on a month's notice, but in view of the confidential nature of the research he had been doing, he was not required to work out his notice and left with a month's salary in lieu of notice. But he left with great goodwill. He told Saul Limited that he would not be competing with Saul Limited's business and was believed.

Within a month of Jonathan's departure, Saul Limited noticed that a number of their established customers were no longer using Saul Limited to supply products. This was not necessarily apparent enough to cause a crisis, but over the next few months further checking went on to see why sales had slumped, it was discovered that David and Jonathan had (before David left Saul Limited, and despite their undertakings that they would not be competing with Saul Limited) set up a business in direct competition with Saul Limited and were selling to these former customers products of competing manufacturers plus a special product.

They had applied to patent an invention, which Saul Limited alleged had been invented while Jonathan had been working there. The original patent application filed by the new company included exactly the same design fault as had been found at Saul Limited, although this was not discovered until after Jonathan had left. However the interior of the invention was significantly different. It was highly arguable whether the whole invention was sufficiently novel to be a new invention, or whether it was merely a re-hash of an invention made by Jonathan while working as Research and Development Director at Saul Limited.

Both sides had uncertainty about the likely success of a court case upon the novelty of the invention.
The worst alternative to a negotiated agreement was extensive costs, and uncertainty of result for either side, despite the confident nature of each side's pleadings.

Saul Limited ascertained that the new company had not actually started trading until after David had left the business, but alleged breach of confidentiality on David's part for approaching Saul Limited customers (they believed David had taken with him Saul Limited's customer lists in breach of his fiduciary duty) and wanted the patent back for its invention allegedly invented while their employee Jonathan, (who was engaged for that very purpose, and was a director with a fiduciary duty) was working there.

Saul Limited was convinced that it would win its case at a court hearing, but recognised that David and Jonathan had no money (nor had the new company) and if they were pushed to the limits, they and the new company would become bankrupt and this would not help Saul Limited in costs and damages recovery. In particular Saul Limited would have to take out further legal action for assignment of the patent application and the chances of recovering its legal costs in this would be minimal.

David and Jonathan were absolutely outraged by the allegations. David said that he had a wide variety of customers across the trade and had met a number of these at Trade Fairs. When they discovered that he had moved, they took their business across to him, i.e. they approached him; he did not poach them. There was no specific covenant against post-termination competition but it was alleged he had broken his fiduciary duty to Saul Limited.

Concerning the invention, they regarded it as novel and completely different; the design fault that was there was, was because it was in the head of the inventor (Jonathan) who was busy doing something else with the product. They had nowhere else to go. If they accepted the claim of Saul Limited, they would lose their prize product and all their investment. If they fought the claim, and if they lost, they would have to pay costs and damages which would cripple them, probably into bankruptcy.

After opening legal proceedings, and the various claims and counter-claims had been identified, the parties went to mediation.
The emotions were running so high that the solicitor-mediator had to persuade both parties to attend an opening joint session together. Unexpected by both sides, the contending parties shook hands. The opening joint session went 'politely' but made no real progress and after a short time the parties went into private sessions with the solicitor-mediator.

The solicitor-mediator spent a lot of time with both parties trying to find out workable practical solutions that did not involve 'concessions' on either side, but put everybody in a position

that, in a commercial sense, that they each wanted to be. What was the best alternative to the uncertainties and cost of litigation?

One small fact that appeared was that Saul Limited had no outlets in the Far East for sales, and regarded this as a fast-growing potential market. David had a very large number of potential contacts in the Far East.

This tiny little fact was built on and to the great surprise of all concerned, a deal was eventually struck on the following terms: -

1. David and Jonathan assigned the patent application to Saul Limited for £1.
2. Saul Limited withdrew all claims against the new company and against David and Jonathan. The litigation was shut off by consent.
3. Saul Limited appointed David and Jonathan's new company as its new exclusive distributor in the Far East for a wide range of Saul Limited's products.
4. Each side bore their own costs of the dispute to date and shared the cost of the mediation equally.

Both parties recognised that litigation was not a practical alternative, whichever side won. The solicitor-mediator was greatly assisted by the solicitors advising each party because they fully recognised commercial reality in connection with the claims at a much earlier stage than the clients. Their contribution was vital in pushing forward the resolution of the dispute to a conclusion that was not wholly unacceptable to each side. The parties parted after making an appointment to discuss practicalities about selling to the Far East.