

**SHERIFFDOM OF GRAMPIAN HIGHLANDS AND ISLANDS AT ABERDEEN**

**[2019] SC ABE 87**

ABE-CA40-18

**NOTE OF SHERIFF PHILIP MANN**

in the cause

WEATHERFORD SWITZERLAND TRADING AND DEVELOPMENT GmbH, a company  
incorporated under the laws of Switzerland and having its registered office at Weststrasse  
1, Baar, Zug 6340, Switzerland

Pursuer

against

iiiTEC LIMITED, a company incorporated under the Companies Acts and having its  
registered office at Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU

Defender

Aberdeen 5 November 2019

The sheriff, having resumed consideration of the cause following debate and following receipt of further, written, submissions called for in the interlocutor of 7 October 2019, Sustains the defender's preliminary plea number 4 and Dismisses the action; Reserves the question of expenses meantime and fixes 29 November 2019 at 2:15pm within the Sheriff Court House, Queen Street, Aberdeen as a hearing to determine the same; further Continues the question of the expenses for the discharged diet of debate on 19 and 20 August 2019 to the same date.

## Note

### Introduction

[1] This judgment follows upon a debate in a commercial action relating to a Manufacturing and Distribution Agreement (“MDA”) in terms of which the defender granted to the pursuer (1) exclusive rights of access to patent rights and know-how and (2) warranties and indemnities in relation thereto. The purpose of the MDA is to enable the pursuer to manufacture products for the defender by utilising the patent rights and know-how. The pursuer seeks two remedies.

### *The First Remedy*

[2] The first remedy is a declarator that the defender is in breach of Articles 2.1, 8(1)(a) and 8(1)(b) of the MDA.

[3] Article 2.1(a) (being the part of Article 2.1 relevant to this action) is in the following terms:

“Subject to the terms and conditions of this Agreement and in particular paragraph 2.1(b) below [which refers to a subsisting grant of certain rights to a third party], iiiTec hereby grants to Weatherford and its Affiliates an exclusive, including as to iiiTec and its Affiliates, worldwide right of access for Weatherford and its Affiliates to the Patent Rights and the Know-how for the purpose of being able to make and have made, to sell and have sold and to use and have used the Product, together with the right for their end-user customers to use the Product.”

[4] Articles 8.1(a) and 8.1(b) are in the following terms:

“8.1 iiiTec represents and warrants as follows:

(a) It has full power and authority to execute and deliver this Agreement on its behalf and on behalf of each of its Affiliates and to perform its obligations hereunder.....”

(b) iiiTec has good and indefeasible title to and has all right and interest to and in all of the Patent Rights and Know-how.....”

### *The Second Remedy*

[5] The second remedy sought by the pursuer is an order for payment of \$1,650,000 as damages for breach of contract.

### *Other Relevant Contract Terms*

[6] Other Articles in the MDA are relevant to the issues which were before the court.

Most of these, I think, require to be set out in some detail.

[7] The preamble states:

“Whereas Weatherford desires to manufacture and distribute the Products for iiiTec  
Whereas iiiTec is willing to have Weatherford manufacture at least a portion of the  
Products and further to allow Weatherford to distribute the Products for iiiTec under  
the terms and conditions hereof”

[8] Article 1.5 defines “Know-how” as:

“all existing or future proprietary or confidential information, data, drawings and  
Know-how which relates to a System and shall include, without limitation, any  
information relating to a System to the extent that iiiTec is free to disclose or use such  
as provided by this Agreement.”

[9] Article 1.7 defines “Patent Rights” as:

“all of iiiTec’s (including its predecessors’, Affiliates’, and successors’) U.S and  
foreign, existing and future issued and valid patents, patent applications and  
cautionary notices and licensed patents which claim the System, components thereof,  
and methods of use thereof, including without limitation, the patents and patent  
applications listed on Schedule A attached hereto and any and all patent applications  
and patents of iiiTec (their predecessors, Affiliates and successors) that are based  
upon or claim priority therefrom.”

[10] Article 1.8 defines “Product” as:

“any System made for or by Weatherford or any Affiliate that utilizes iiiTec’s Know-  
how and comes squarely within the scope of the claims of any issued and valid  
patents included in the Patent Rights to the extent of iiiTec’s rights therein”

[11] Article 2.3 states:

“During the term of this Agreement, iiiTec agrees to use all reasonable endeavours to prosecute and maintain, at no expense to Weatherford, iiiTec’s Patent Rights, and use all reasonable endeavours to seek to obtain patent protection in the US and other countries as agreed between parties.”

[12] Article 2.6 states:

“(a) Weatherford and its Affiliates shall maintain the Know-how and any iiiTec non-published patent applications that relate to the Products and/or the System on a confidential basis and shall not disclose, agree to disclose or attempt to disclose such information to any third party unless having first obtained the prior written consent of iiiTec.

(b) Nothing contained herein shall in any way restrict or impair Weatherford’s or their Affiliates right to use, disclose, or otherwise deal with any of the Know-how or any Patent Rights which:

- (i) is or becomes generally available to the public through no wrongful act of Weatherford or its Associates;
- (ii) was in the possession of Weatherford or its Affiliates prior to the time it was acquired hereunder and was not acquired, directly or indirectly, from iiiTec or from others under an obligation of secrecy;
- (iii) is independently made available as a matter of right to Weatherford or its Affiliates by a third party without obligations of secrecy, provided such third party did not acquire such Know-how or Patent Rights directly or indirectly from iiiTec; or
- (iv) is independently developed for Weatherford or its Affiliates by persons not having access to iiiTec’s Know-how or Patent Rights and which is not excepted by subparagraphs (i), (ii) or (iii) above.

[13] Article 2.7 states:

“Weatherford accepts that it and its affiliates shall only use the Know-how and Patent Rights solely for the purposes expressly provided for by this Agreement and acknowledges that it and its Affiliates has (*sic*) no rights therein and thereto other than those rights granted to them by this Agreement and only for the specific purposes as expressly referred to in this Agreement.

[14] Article 3.1 (as amended by an agreement on 15 May 2012) states:

“Within thirty (30) days of the date of this Agreement, Weatherford will provide an advance payment of Payments (royalties) to iiiTec in the amount of \$1,650,000 (USD). Such advance will act as a credit against future Payments due under this Agreement. Once Weatherford’s accrued Payments payable hereunder surpass \$1,650,000 (USD) in total, then Weatherford will remit future Payments to iiiTec as set forth herein below.

Weatherford shall pay iiiTec a payment (the “Payment”)... equal to six per cent (6%) (the “Payment Percentage” of the Net Price of each Product sold or rented by

Weatherford and its Affiliates to an end-user customer (a “relevant Product sale”) beginning on the date of this Agreement and ending at the end of the following Accounting Period (the “First Accounting Period”) and thereafter making a payment equal to the Payment Percentage of the Net Price of all Relevant Product Sales made in each subsequent Accounting Period following the First Accounting Period....”

[15] Article 5.1 states:

“Nothing contained herein shall create, imply or grant or is intended to create, imply or grant a licence by iiiTec to Weatherford (or its Affiliates) of the Patent Rights and/or Know-how or a licence from either party to the other in respect of any iiiTec intellectual property rights that are not referred to in this Agreement.”

[16] Article 6.3 states:

“In the event that Weatherford or any of its Affiliates is subject to any legal action for patent infringement or alleged patent infringement of a third party’s Patent Rights as a result of Weatherford’s and/or its Affiliates’ manufacture, sale or use of the Products then Weatherford shall use its best endeavours to give notice thereof to iiiTec within 10 Business Days, and in any event within not more than 30 Business Days, of receiving any writ, letter or otherwise from or on behalf of a third party and thereafter iiiTec shall (at iiiTec’s own expense and in addition to and without prejudice to Articles 8.5(a) and 8.5(b) ) use all reasonable endeavours to firstly investigate any claims of such third party so as to establish whether or not such claims can be properly substantiated. iiiTec shall keep Weatherford fully informed of the progress of such investigations and shall furnish Weatherford with all correspondence, reports, papers and details of any intellectual property advice sent by or received by iiiTec in relation thereto.....”

[17] Article 7.4 states:

“Weatherford may, in its sole discretion, terminate this Agreement at any time and for any reason without penalty by giving iiiTec 60 days written notice.”

[18] Article 8.2 states:

“iiiTec agrees to indemnify, defend and hold Weatherford.....harmless from and against and in respect of Damages actually suffered, incurred or realized.....arising out of or resulting from or relating to (i) any claims of infringement or violation of intellectual property rights of any person with respect to the Products.....(ii) any misrepresentation, breach of warranty or breach of any covenant or Agreement made or undertaken by iiiTec or its Affiliates in this Agreement.....or (iii) any Damages to the person or property of anyone arising out of or resulting from iiiTec entering into this Agreement.....”

[19] Article 8.4 states:

“For the purposes of this Agreement, “Damages” shall mean any and all liabilities, losses, damages, demands, assessments, claims, costs and expenses, which are quantified and actually payable existing now or hereafter arising, (including interest, awards, judgments, penalties, settlement, fines, costs of remediation, diminutions of value, costs and expenses incurred in connection with investigating and defending any claims or causes of action (including without limitation, attorney’s fees and expenses and all fees and expenses of consultants and other professionals)).

[20] Article 8.5 states:

“in the event that Weatherford is subject to a Damages claim for infringement, misappropriation, or conflict of a third party’s intellectual property rights then iiiTec shall (at iiiTec’s option) either:

(a) acquire such rights as are necessary for Weatherford to continue to utilize the Products under this Agreement: or

(b) grant to Weatherford the right, within the countries wherein such infringement is taking place, to bring legal action in iiiTec’s name and at iiiTec’s expense to defend against such claims of infringement, misappropriation , or conflict.....”

[21] Article 9.13 states:

“This Agreement, including the Exhibits, constitutes the entire agreement between the parties with respect to the subject matter hereof .....”

### *Other Agreements*

[22] In addition to the MDA there are other agreements, some of which are appended to the MDA in Schedule B thereof, which might affect the issue of the defender’s title to, and rights in, the Patent Rights and Know-how which are the subject of the MDA. These include a Patent and Know-how Licence Agreement (“PKHLA”) between Petrowell Limited (“Petrowell”) and the defender with relative Minute of Amendment, a License Agreement between In-Depth Systems Inc. (“In-Depth”) and the defender and a Technology and Development Agreement (“TDA”) amongst Marathon Oil Company (“Marathon”), Petrowell and the defender. For reasons which I hope will become apparent, it is not necessary for me to look at the precise terms of these other agreements in order to determine

for the purposes of this litigation whether or not the defender is in breach of the relevant clauses of the MDA.

### ***Relevant Statutory Provisions***

[23] Sections 6 and 11 of the Prescription and Limitation (Scotland) Act 1973 provide as follows:

**“6 - Extinction of obligations by prescriptive periods of five years.**

- (1) If, after the appropriate date, an obligation to which this section applies has subsisted for a continuous period of five years -
- (a) without any relevant claim having been made in relation to the obligation,
  - and
  - (b) without the subsistence of the obligation having been relevantly acknowledged,
- then as from the expiration of that period the obligation shall be extinguished:

.....

**11 - Obligations to make reparation.**

- (1) Subject to subsections (2) and (3) below; any obligation (whether arising from any enactment, or from any rule of law or from, or by reason of any breach of, a contract or promise) to make reparation for loss, injury or damage caused by an act, neglect or default shall be regarded for the purposes of section 6 of this Act as having become enforceable on the date when the loss, injury or damage occurred.
- (2) Where as a result of a continuing act, neglect or default loss, injury or damage has occurred before the cessation of the act, neglect or default the loss, injury or damage shall be deemed for the purposes of subsection (1) above to have occurred on the date when the act, neglect or default ceased.
- (3) In relation to a case where on the date referred to in subsection (1) above (or, as the case may be, that subsection as modified by subsection (2) above) the creditor was not aware, and could not with reasonable diligence have been aware, that loss, injury or damage caused as aforesaid had occurred, the said subsection (1) shall have effect as if for the reference therein to that date there were substituted a reference to the date when the creditor first became, or could with reasonable diligence have become, so aware.
- .....”

## **The Debate**

[24] The defender has two outstanding preliminary pleas. The first is its plea in law number 4 which is a general plea to relevancy and specification and the second is its plea in law number 7 which pleads prescription.

[25] I heard debate on these preliminary pleas on 9 and 10 September 2019, following which I made *avizandum*. The pursuer was represented by Miss Higgins, QC whilst the defender was represented by Mr Cormack, Solicitor Advocate, QC.

## ***The Defender's Submissions at the Hearing***

[26] Counsel for the defender asked me to dismiss the action as a whole or alternatively to dismiss the pursuer's crave 2 for damages on the basis of a lack of relevancy and specification. Failing that, counsel sought dismissal of the action *quoad* the claim for damages on the basis that the defender's obligation to make reparation had, in any event, prescribed.

[27] Counsel described the background to the dispute between the parties and the terms of the MDA and related documents. His position was that the pursuer had misconstrued the terms of the MDA. The MDA had been characterised as a manufacturing and distribution agreement rather than a licence agreement. The purpose of the agreement was to allow the pursuer to manufacture at least a portion of the Products and to distribute those Products for the defender.

[28] Counsel took me to two authorities for the principles to be applied to the construction and interpretation of the MDA. These were *Midlothian Council v Bracewell Stirling Architects* 2018 SCLR 606 and *Hoe International v Anderson* 2017 SC313. The approach in these cases was to focus on the meaning of the language actually used by the parties,



assessed against the relevant background knowledge and other relevant parts of the agreement.

[29] Article 2.1(a) of the MDA granted an exclusive, including as against the defender and its associates, world-wide right of access to the Patent Rights and Know-how. "Patent Rights" was defined as all of the defender's valid Patent Rights whilst "Product" was defined as "[the defender's] Know-how .... To the extent of [the defender's] rights therein". The definition of "Know-how" was similarly qualified by the words "to the extent that [the defender] is free to disclose or use such as provided by this Agreement". Thus, what was granted was an exclusive right of access to the extent of the defender's rights in the Patent Rights and Know-how from time to time. The MDA did not grant exclusivity in relation to other parties such as In-Depth.

[30] Counsel maintained that the pursuer only had to pay royalties to the defender in respect of Products sold or rented by the pursuer; in other words it only had to pay to the extent that it used rights and Know-how that the defender actually had. The requirement for the payment of \$1,650,000 amended into Article 3.1 of the MDA was simply as an advance payment of royalties which did not change that position. There was no provision for the advance payment to be refundable although it might be the case that a refund would become due if there ceased to be any possibility of Payments becoming due by the pursuer. However, as a matter of fact, it was common ground in the pleadings that the advance payment had been used up.

[31] Counsel referred to Article 2.6(b) of the MDA which, he said, specifically contemplated the possibility that a third party would be able to make available to the pursuer Know-how and Patent Rights as a matter of right. This, he said, was directly inconsistent with the proposition that the defender required to have, and to give the

pursuer, access to rights which the defender held on an exclusive basis. He referred to Article 2.7 of the MDA which confirmed that the rights were granted only for the specific purposes expressly referred to in the agreement. He further referred to Article 5.1 of the MDA which excluded the grant of a licence by the defender to the pursuer. This, he said, emphasised that the MDA was purely a matter between the parties and did not affect the position of third parties other than affiliates. He said that the exclusivity granted was in respect of the defender's rights not the rights of third parties such as In-Depth. The exclusivity granted by the defender prevented it from appointing someone else other than the pursuer to manufacture and distribute the Products for the defender. This was consistent with the view taken of the restriction in the case of *Bondax Carpets Limited v Advance Carpet Tiles* [1993] FSR 162.

[32] Counsel referred to the "entire agreement" clause 9.13 in the MDA. It referred to exhibits which could only be a reference to the documents specified at schedule B to the MDA. That reference had to operate to exclude any claim for breach of warranty based on these documents, the terms of which the parties must be taken to have accepted.

[33] Counsel maintained that the pursuer could not maintain a breach of warranty on the basis that In-Depth, who had granted the sub-licence to the defender, itself only had a non-exclusive licence from Marathon. This was because the sub-licence was appended in schedule B as an exhibit to the MDA and it was obvious from its terms, particularly clause 2.04 thereof, that the defender was not in a position to grant exclusivity as against In-Depth.

[34] Counsel maintained that the pursuer's complaint of breach of warranty based on the invalidity of the PKHLA was irrelevant as no good basis was averred for the inference that the payment required by the defender under that agreement, as a condition of its coming

into effect, had not been paid. The pursuer claimed that the PKHLA had terminated as at 2007 but that argument was completely destroyed by the facts that the PKHLA was appended as an exhibit to the MDA and that there was an amendment thereto which confirmed that the agreement remained in force.

[35] Counsel suggested that there was a lack of essential specification as to whether the TDA actually affected any Patent Rights relevant to the MDA and, if so, which Patent Rights.

[36] With regard to the pursuer's averment in article 11 of condescendence that the termination of the agreement between In-Depth and the defender resulted in the defender no longer having any rights in the Marathon Patents, counsel's position was that that termination did not of itself amount to a breach of the MDA. Its effect was simply to limit the scope of the Patent Rights and of the category of Product and thus the scope of the pursuer's obligation to make Payments. In any event Article 8.1 of the MDA was not capable of applying to that termination because the warranties in Article 8.1 were given at the point at which the MDA was entered into.

[37] Counsel then turned his attention to the claim for damages. He said that, in effect, the claim was for repayment of the \$1,650,000 advance payment. That had to be based on an inference that when it paid that sum the pursuer did not receive the correct counterpart contractual benefit under the MDA. But there were no averments that the pursuer had been exposed to claims from third parties who held rights in the patents. There were no averments that the pursuer had not made any sales of Product since the prepayment was made or that the pursuer had been disabled from making sales of Products. In fact, the pursuer averred (in response to the defender's prescription averments) that further Payments did fall due after the advance payment. That could only have been the case if the

pursuer had been making sales of Product. That was directly contradictory to the claim that the advance payment was a loss because Payments only became due by the pursuer under the agreement if the pursuer had the benefit of sales and rentals which were within the rights of access granted by the defender under the MDA.

[38] Counsel went on to argue that there was no specification of the basis upon which the pursuer claimed that the \$1,650,000 amounted to a loss. The payment was no more than an advance payment of royalties which would become due. What the pursuer had to pay for under the agreement was in relation to sales of Products. On any view, said counsel, the pursuer had no relevant basis for averring that the \$1,650,000 was a loss for which it was entitled to claim damages for breach of contract. Thus, even if the averments of breach of the MDA were relevant for enquiry the claim for damages was plainly irrelevant and lacking in essential specification.

[39] Counsel maintained that even if the claim for damages was relevant it had prescribed. The advance payment was made on 14 June 2012 and the action was served on 2 November 2018. Section 6 of the Prescription and Limitation (Scotland) Act 1973 provided that the appropriate date is the date when the obligation became enforceable. By virtue of section 11(1) that date was the date when the loss, injury or damage occurred. On the pursuer's averments, if the making of the advance payment amounted to a loss because it was made in circumstances in which the pursuer could not receive what it had contracted for in return then that loss occurred on 14 June 2012. That was the point of concurrence of *damnum* and *injuria*.

[40] The pursuer's reliance on section 11(2) of the Act was plainly irrelevant because both in respect of the In-Depth Licence agreement and the PKHLA the pursuer averred that the breach occurred on 5 May 2009 immediately after the point at which the MDA was entered

into. There was no basis, said counsel, upon which it could be claimed that this was a continuing act, neglect or default on the part of the defender. Three cases were relevant to the issue of section 11(2). These were *Johnston v Scottish Ministers* [2006] SCLR 5; *Warren James (Jewellers) Limited v Overgate GP Limited* [2010] CSOH 57; and *John Sibbald & Son Limited v Johnston* [2014] CSOH 94

[41] Under reference to *Gordon's Trustees v Campbell Riddell Breeze Patterson LLP* [2017] UKSC 75, counsel submitted that section 11(3) of the 1973 Act also could not assist the pursuer. It was enough for the prescription clock to start running that the pursuer knew that it had incurred expenditure. At the time that it incurred that expenditure by way of the advance payment on 14 June 2012 it could, with reasonable diligence, have been aware that it had not obtained something which it had sought. If there were difficulties with the agreements appended to the MDA which the pursuer now complained of they must be plain from a reading of those agreements. The pursuer, upon reading those agreements, could have asked the defender for verification that the conditions had been complied with. Paraphrasing what the Inner House said in *Anderson v Wilson* 2019 SC 271 at paragraph [45] counsel suggested that the alleged facts upon which the pursuer sought to rely could have been ascertained just as easily in 2012 as at any later date.

[42] Finally, on the subject of prescription counsel dismissed the pursuer's assertion that the relevant loss arose in stages as the advance payment was used up as the quarterly payments fell due. The assertion was contrary to the single and indivisible obligation principle established in the case of *Dunlop v McGowans* 1980 SC (HL) 73 in which the House of Lords rejected the argument that each item of pecuniary loss was properly to be regarded separately as rendering enforceable, in respect of that particular item, the obligation to make reparation. Lord Glennie had made much the same point in the *Warren James* case when he

said that if an obligation has prescribed it has prescribed for all purposes even if some loss has occurred at a later date.

[43] Counsel suggested that this was a case in which the position was sufficiently clear that the court could and should deal with the issue of prescription at debate with the result of dismissal as contended for by the defender.

### *The Pursuer's Submissions at the Hearing*

[44] Counsel moved me to repel the defender's preliminary pleas and to allow the cause to go to proof.

[45] She first of all addressed the issue of prescription. She maintained that the defender was in breach of the MDA and that this was a continuing act or default. It was in breach at the time the MDA was entered into and remained in breach to the present day. The defender's breach was not a one-off default on the part of the defender. It was a breach that was capable of being brought to an end. Section 11(2) of the 1973 Act provided that in the case of a continuing act, neglect or default the loss shall be deemed to have occurred on the date when the act, neglect or default ceased. Since it was deemed that there was no *damnum* there could not be the necessary concurrence of *damnum* and *injuria* and, therefore, prescription could not have started to run.

[46] Under reference to paragraph 4.68 in the textbook Johnston *Prescription and Limitation*, second edition, and drawing a distinction between this case and the case of *Johnston v Scottish Ministers* (which concerned the promulgation of an order), counsel maintained that if something – in this case a breach of warranty which had the same character throughout – is capable of remedy then it is something that is ongoing. This case involved a mis-performance rather than a non-performance of the defender's obligation. It

was thus the kind of case which, at paragraph [33] in the case of *Kennedy v Royal Bank of Scotland plc* [2018] CSIH 70, Lord Drummond Young said might invoke section 11(2) of the Act.

[47] Counsel referred to the case of *Deans v Thus PLC* 2005 SCLR 148 which involved a failure by the defender to enrol the pursuer in a pension scheme and to make the periodic payments necessary for his membership. In that case the defender was unsuccessful in arguing that the defender's act could not be considered to be a continuing act. She said that the same consideration applied in this case where the defender had defaulted by failing to provide the exclusive access to the Patent Rights which the pursuer had contracted for but could have remedied the default at any time. That what was involved was an ongoing breach was demonstrated by the fact that even at this point in time the pursuer could rescind the contract. In the circumstances of this case a proof would be necessary to determine if and when the breach had become irremediable.

[48] Counsel referred to the *Warren James* case which she said was distinguishable from the present case but which was useful for Lord Glennie's opinion that the question whether the breach was a continuing one must be answered by reference to the pursuer's pleadings. *Warren James* was concerned with a lease of a shopping centre unit having been granted to a third party in breach of an obligation contained in the lease to the pursuer that the pursuer would have exclusivity as regards the retail sale of jewellery. The case was pled on the basis of a single breach from which all of the pursuer's losses flowed. The present case was pled on the basis of a continuing breach of a warranty which had endured since the MDA was entered into in 2009. In *Warren James* the defender was unable to remedy the breach because it could not get out of the offending lease. In this case the defender, at least in theory, could try to remedy the situation. It could acquire the necessary Patent Rights and bring the

breach to an end. Even if it were suggested that the situation could not be remedied that would not be fatal to the suggestion that it was an ongoing breach.

[49] The pursuer's case, in any event, was that each royalty payment which the pursuer was obliged to make to the defender was calculated with reference to sales or leases during a specific accounting period and depended on the pursuer making those sales or leases. The obligation to pay only arose on the dates for payment stipulated in the MDA. Thus each payment was a wholly separate loss rather than an increasing loss or instalment of the same loss and as a result the right to claim for it only accrued at the time the payment became due. That was the date for the start of the prescriptive period. The case of *Dunlop* prayed in aid by the defender was based on very different facts. The decision in that case was influenced by the consideration that the later losses for which the pursuer claimed could not be ascribed to any particular date from which it could be said that the prescriptive period ran.

[50] As regards section 11(3) of the 1973 Act the pursuer had been under no obligation to ask the defender to confirm that it was in a position to comply with its contractual obligations. The question was whether and at what point the pursuer could with reasonable diligence have discovered that it was not getting what it had contracted for. The pursuer's averments were set out in Article 13 of condescendence. The pursuer's case was that it only had cause to look behind the schedule B documents after the date mentioned, the fourth quarter in 2016, when the defender began to dispute the amount of revenue from the royalty payments and when Marathon offered to sell its shares in In-Depth to the pursuer. The pursuer set out in its pleadings the investigation that it carried out. It was only after that point that the pursuer could reasonably have been aware that it had any cause for concern. On the pursuer's averments, 2017 was the earliest date at which, with the use of reasonable diligence, it could have become aware. The test was partly subjective and partly objective,



as was acknowledged at paragraph 6.101 in Johnston *Prescription and Limitation*, second edition.

[51] Counsel maintained that the relevant test when looking at the conduct of a party relying on section 11(3) was to consider whether the party had done what the ordinarily prudent person would have done in the circumstances. The pursuer clearly had sufficient averments against which the court could assess the test. That would include whether the pursuer should have been checking to see if the defender was complying with the other relevant contracts.

[52] The pursuer's case was that it did not get what it contracted for and that was something that it did not know and could not with the use of reasonable diligence have known until 2017. Thus the case of *Anderson v Wilson* relied upon by the defender was not in point.

[53] Counsel then turned her attention to the defender's attack on the relevancy of the pursuer's pleadings. The backdrop to the case was set out in article 2 of condescendence:

"The pursuer wished to manufacture and distribute certain Products and believed that it required permission from the rights-holder in respect of the relevant intellectual property in order to be able to manufacture and distribute them. In particular, this permission was required to ensure that the pursuer would not be sued by the rights-holder for, inter alia, patent infringement. The defender advised the pursuer that it held the rights in the intellectual property relative to those Products, which are defined in Art. 1.8 of the MDA."

The pursuer's point was that it had paid the defender to be able to use the intellectual property and manufacture Products incorporating it; but the defender did not have the rights to that intellectual property which meant that the true rights-holder could have come in at any moment and prevented the pursuer from doing so. The pursuer's position was that it did not have the protection it thought it had been given. It was against that backdrop that counsel asked me to construe the MDA.

[54] Counsel maintained that it mattered not what name was given to the agreement; it was the terms of the agreement that determined the parties' rights. It was not necessary to set the agreement up as a licence in order to advance the pursuer's case.

[55] Clause 2.1(a) of the MDA granted an unqualified exclusive right of access to the Patent Rights. The phrase "Patent Rights" was defined in Article 1.7 as including the patents and patent applications listed in schedule A. Article 2.1(a) was not qualified by the definition of "Know-how" in Article 1.5, which was simply referring to all the Know-how that the defender was free to disclose. Similarly, Article 2.1(a) was not qualified by the definition of "Product" at Article 1.8 because the grant of exclusive access was made for the purpose of enabling the pursuer to manufacture the Product. The breach relied upon by the pursuer was the failure of the defender to give exclusive access to the Patent Rights listed in schedule A. There was nothing in Article 2.1(a) or elsewhere in the definitions which qualified the grant of those exclusive rights.

[56] Article 2.3 required the defender to use all reasonable endeavours to maintain the Patent Rights. Article 2.6(a) bound the pursuer to confidentiality as regards the Know-how and unpublished patent applications. Article 2.7 bound the pursuer to use the Patent rights and Know-how solely for the purpose of making Products. None of these clauses made any commercial sense if all that was being sought was protection for a range of unknown Patent Rights qualified on the basis that the pursuer was getting what the defender happened to have from time to time. It made no sense for the pursuer to agree to make payments if all it was getting in return was access to the Patent Rights to the extent of the defender's rights therein from time to time; that gave the pursuer no security whatsoever.

[57] Counsel did not accept the defender's assertion that the reference to "valid patents included in the Patent Rights" in Article 5.3 (b) of the MDA cut across the clear wording of

Article 2.1, at least as regards the patents referred to in schedule A. Nor could the reference to the schedule B documents in Article 8.1(b) cut down the warranty given in the first line of that clause that the defender had good and indefeasible title to the Patent Rights and Know-how. What was disclosed in the schedule B documents did not indicate any difficulties with the defender's title. The terms of the warranty did not sit with the suggestion that there was any difficulty with the defender's title. The warranty was backed up with an indemnity in Article 8.2 of the MDA. Title was clearly a matter of importance to the parties.

[58] Counsel then referred to the cases of *Hoe v Anderson* and *Midlothian Council v Bracewell Stirling Architects* already referred to by the defender. Her position was that the pursuer's construction of the MDA was more consistent with the principles expressed in these cases – consideration of the language used, what the reasonable person having all the background knowledge would understand the words to mean and reference to other relevant parts of the agreement – than was the defender's. The court must have regard to all the circumstances and if there were competing constructions the court should prefer the one that accorded with business sense.

[59] Counsel's position was that even if it was appropriate to look at the schedule B documents when construing Article 8.1 it was certainly not appropriate to do so in relation to Article 2.1 because that Article did not mention those documents. Just because Article 9.13 mentioned "the exhibits" that did not mean that it was other than a standard "entire agreement" clause. The pursuer's position was that the references to the schedule B documents did not cut down the very clear warranty in the first line of Article 8.1 and the exclusive access granted by Article 2.1.

[60] It was not possible to tell from the schedule B documents that the defender's rights to the patents were compromised or were not as the pursuer tried to set up in the pleadings.

So far as the In-Depth agreement was concerned the document that was appended indicated that the defender had exclusive rights and it was only by looking at a document that was not appended that it became clear that that was not the case. Even if it was the case that the appended document caused a difficulty that was no answer to the pursuer's claim for breach of the Article 2.1 grant or the Article 8.1 warranty. The appended documents did not put the pursuer on notice that the defender did not have the Patent Rights.

[61] Even if the defender was right to say that it was clear from the In-Depth agreement that the defender did not have the right to grant exclusive licences the short answer to that was that, by virtue of Article 5.1, the MDA was not a licence agreement. A distinction fell to be drawn between a licence and a grant of access. The MDA was essentially saying that the defender would not assert the Patent Rights against the pursuer. The defender not having Patent Rights to assert, the pursuer had paid for nothing.

[62] As regards the PKHLA the pursuer's averments were to be found at article 9 of condescendence. The pursuer there set out the basis for the inference that a payment due under the PKHLA had never been made and that as a result the defender had not acquired any rights under it. The issue of payment was the key issue as regards the PKHLA and that was a matter for proof. The defender's attack on the pursuer's averments relating to the non-timeous grant of licences under the PKHLA, leading to the termination of that agreement, was simply wrong.

[63] Counsel dismissed the defender's argument that the 2008 amendment to the PKHLA demonstrated that the PKHLA was still operative and that this was fatal to the pursuer's argument that the PKHLA had fallen because once it had fallen the amendment would not operate to revive it.

[64] Counsel then dealt with the defender's final attack on the pursuer's averments relating to the TDA. The pursuer was offering to prove that the defender had assigned some of the Patent Rights to Marathon prior to the date of the MDA. As a result the defender had lost the Patent Rights which meant that it was in breach of the Article 8.1 warranty which was an ongoing warranty. Even if that were wrong the defender was still in breach of the Article 2.1 grant of the access rights.

[65] So far as the pursuer's claim for damages was concerned counsel's position was that the pursuer had no need to aver the matters suggested by the defender. There was no need to aver that the pursuer had not made any sales of Products since the prepayment was made and no need to aver that the pursuer had been disabled from making sales. The pursuer's case was that it did not get the protection from attack from the true patent holders which it had contracted for. The measure of the pursuer's losses arising from the defender's failure in that regard was what was paid over to the defender for the grant of the exclusive access which the pursuer did not get. If the defender disputed the quantification of that loss then that was a matter for proof.

[66] In conclusion, counsel maintained that nothing which the defender had advanced met the classic test in *Jamieson v Jamieson* 1952 SC (HL) 44. It could not be said that even if the pursuer proved all of its averments it was still bound to fail. The defender's plea to the relevancy should be repelled.

### **Further Submissions**

[67] Notwithstanding the submissions recorded at paragraphs [37] and [65] herein, on 7 October 2019 I pronounced an interlocutor, seeking further clarification, in the following terms:

“The Sheriff, having resumed consideration of the cause and having identified certain issues upon which the parties ought to have an opportunity of making submissions, directs the parties, within 28 days hereof and if so advised, to lodge written submissions (A) on the consequence of the pursuer not having made averments (1) that it has not, as a matter of fact, had exclusive access to the relevant Patent Rights and Know-how (2) that any third party has challenged the pursuer’s use of the Patent Rights and Know-how or has maintained that the pursuer has infringed any Patent Rights or the like and (3) that it has suffered, or has become liable to pay, Damages as defined in Article 8.4 of the Manufacturing and Distribution Agreement (“MDA”) ; and (B) the significance of Articles 8.5(a) and 8.5(b) of the MDA.”

Further submissions were duly provided by parties.

### *The Defender’s Further Written Submissions*

[68] The consequence of the pursuer not having made averments that it has not, as a matter of fact, had exclusive access to the relevant patent-rights and Know-how is that the pursuer's claim is irrelevant in any event. Further and in the alternative, the consequence is that the pursuer's financial claim is irrelevant because there is no basis of loss averred.

[69] The consequence of the pursuer not having made averments that any third party has challenged the pursuer's use of the Patent Rights and Know-how or has maintained that the pursuer has infringed any Patent Rights or the like is to confirm that there is no case averred that the pursuer has not had exclusive access to the relevant patent-rights and Know-how.

[70] The same consequence arises from the absence of any averment by the pursuer that it has suffered, or has become liable for, Damages as defined in Article 8.4 of the MDA.

[71] The significance of Articles 8.5(a) and (b) of the MDA is that in order to have a relevant claim for breach of contract as a result of a third party claim against it, the pursuer would need to aver that the defender either failed to elect for (a) or (b) or the defender did elect but the chosen course failed to protect the right of access in favour of the pursuer. The

pursuer has no such averments. This is a matter of relevancy going further than mere prematurity.

***The Pursuer's Further Written Submissions***

[72] The pursuer's case is that it contracted with the defender for the defender to provide it with exclusive access to certain patents and Know-how in its role as the rights-holder. The pursuer avers that the defender had (and has) no rights in the patents and Know-how that could permit it to grant such access and thus is in breach of the provisions relative to grant of access in the MDA and also, *inter alia*, the warranty that it had the relevant rights. It is clear from these averments that the pursuer is saying the defender did not give it exclusive access, as the defender simply could not.

[73] If the issue raised by the Court is intended to be understood more widely – by way of suggesting the pursuer might have made averments that it has not (in practical terms) had exclusive access to the relevant patents and Know-how – i.e. irrespective of any dealings with the defender – then this issue is not relevant to the pursuer's case. The absence of any averments in that regard would, thus, be of no consequence. The pursuer contracted for the defender to give it access and paid a significant consideration in return. The only issue of relevance is whether the defender provided the exclusive access rights which it undertook to provide and in respect of which it granted warranties. To draw on the analogy explored at the Debate, the situation is akin to the defender contracting to give the pursuer exclusive access to a field which the defender does not, in fact, own. The pursuer may, in the result, take access to the field, but that access will be wholly unrelated to any grant from the defender, as the defender has no rights to grant. The defender would be in breach of contract and the pursuer would be entitled to claim as damages, *inter alia*, any sums which it had paid over to the defender for that access under the contract.

[74] In any event, looking more generally at matters, a full consideration of the pursuer's averments shows that, as a matter of logic, the pursuer cannot say whether or not it had exclusive access to the patents and Know-how as, at the date of signing the MDA, the only party it was told held the rights thereto – the defender – did not hold those rights.

[75] An averment that a third party has challenged the pursuer's use of the Patent Rights and Know-how or has maintained that the pursuer has infringed any Patent Rights or the like does not require to form part of the pursuer's case and its omission is, thus, of no consequence. The pursuer's case is that the defender is in breach of contract by failing to give the pursuer what the defender obliged itself to give under the contract, and in respect of which the defender granted certain warranties. The pursuer contracted with the defender for exclusive access to certain IP rights to which the defender warranted it had title (along with various additional rights associated with this exclusivity, such as, for example, the right in certain circumstances to sue third parties for infringement set out in Art 6.2 of the MDA). The loss relied upon by the pursuer at this stage is the failure to get what it contracted for. As noted above, it has valued this loss in the amount of the advance payment. The pursuer does not aver any other head of loss, nor does it require to. In the event that the pursuer were challenged by a third party, and sustained financial loss as a result, this could be made part of any claim against the defender, as a loss arising from the defender's breach. But no such head of loss is advanced. The pursuer's case depends solely upon establishing the defender's breach, which in turn arises solely out of its failure to have the rights it purported to have. Challenges by third parties might increase the quantum of the pursuer's loss, but they would not affect the substance of the claim of breach.

[76] The term "Damages" in Art 8.4 of the MDA appears to relate back to the indemnity provisions contained in Art 8.3. The pursuer's claim is advanced under common law, not



Art 8.3. The pursuer's case on Record is that it has incurred loss and damage as a result of the defender's breach, which at present it estimates in a sum equivalent to the amount of payments made to the defender to date. It would, as a matter of contractual interpretation, be open to the pursuer to seek to claim from the defender any "Damages" suffered, or that it has become liable to pay, under Art 8.4 of the MDA. However, at present, such sums are not included within the pursuer's case – nor do they require to be. The absence of any averments on this issue is of no consequence to the pursuer's case.

[77] The fact that the pursuer has not made averments about Art 8.5(1a) and (b) is of no relevance to the claim that is advanced. The absence of such averments is, accordingly, of no consequence to the pursuer's case. Art 8.5(a) and (b) only come into play in the event that the pursuer has become "subject to a Damages claim for infringement, misappropriation, or conflict of a third party's intellectual property rights". The pursuer does not claim to have been subjected to a damages claim by a third party – nor does it require to do so in order to seek compensation for the defender's failures under, and breaches of, Art 2.1 and 8.1 of the MDA. The question of claims that might be made against the pursuer – such as would amount to Damages under Art 8.4 of the MDA and potentially engage the provisions of Art 8.5 – is wholly extraneous to the subject-matter of the claim currently advanced.

[78] It is said in the Note appended to the interlocutor dated 7 October 2019 that: "In short, it might be said that the pursuer's averments amount to no more than an apprehension or concern on its part that the defender might be found to be in breach of its warranties and that the pursuer might suffer Damages as a result. It might be said, on that basis, that this action is at best premature and at worst without foundation."

[79] The pursuer's explicit case on Record is that the defender is currently in breach of the MDA and has been since the day the MDA was signed in May 2009 – thus no issue of a

future or apprehended breach arises; the pursuer's case on Record is that it has already suffered loss, as it did not get from the defender what it contracted for, the estimate of which loss comprehends the amount of the consideration paid to the defender in return for rights which the defender did not have. That being so, the action is neither premature nor without foundation.

### **Discussion and Decision**

[80] The preamble to the MDA confirms that the purpose of the MDA is to allow the pursuer to manufacture and distribute the Products for the defender. The terms and conditions that follow include such as are necessary to allow that purpose to be achieved whilst at the same time providing the pursuer with protection from and indemnity against Damages (as defined in the MDA) actually suffered and arising out of third party claims for infringement of Patent Rights or any misrepresentations or breach of warranty by the defender.

[81] The questions which arise in this case are; firstly, whether or not there has been any breach of warranty; secondly, if so, whether such breach has resulted in the pursuer suffering any loss; and thirdly, if the pursuer has suffered any loss whether the pursuer's right to recover that loss has prescribed. It is convenient that I deal with the issues in reverse order.

### ***Prescription***

*Section 11(2) of the Prescription and Limitation (Scotland) Act 1973*

[82] The default, so says the pursuer, arises as a result of the defender not being in a position to grant the exclusive access to the Patent Rights which the MDA provides for

because the defender did and does not hold the necessary rights in the patents. But, the default could be remedied by the defender acquiring the necessary Patent Rights to put it into that position. Indeed, article 8.5(a) of the MDA envisages just such a situation.

Furthermore, the MDA provides for royalty payments to be made in respect of sales and leases of Products manufactured by the pursuer in successive accounting periods by virtue of the pursuer's access to the Patent Rights. Each royalty payment arises from a separate, annually recurring, obligation. The pursuer required access to the Patent Rights and Know-how on a continuing basis to enable it to manufacture and distribute the Products. In my view, if the pursuer is correct in saying that the defender is in default then what we have, in this case, is a continuing default. Section 11(2) of the Act precludes the operation of prescription whilst the default continues.

[83] In the *Warren James (Jewellers)* case Lord Glennie said:

“In one sense, of course, this proves too much, since the breach, if a continuing one, has not ceased and the loss and damage is deemed not yet to have occurred, with the consequence that the action would be premature.”

With the greatest respect to Lord Glennie I do not agree. Section 11(2) provides that the loss, injury or damage shall be deemed *for the purposes of subsection (1)* to have occurred on the date when the act, neglect or default ceased. Thus, subsection (1) has to be read as if it provided that the obligation shall be regarded *for the purposes of section 6* as having become enforceable on the date when the act, neglect or default ceased. The purpose of section 6 is to provide only for the extinction of an obligation, it has nothing to say about the creation or subsistence of the obligation. The effect of section 6 read along with sections 11(1) and 11(2) is that a subsisting obligation cannot be subject to prescription when it results from a continuing act, neglect or default which has not come to an end. The obligation is a subsisting obligation nonetheless and can be sued upon.

*Section 11(3) of the Prescription and Limitation (Scotland) Act 1973*

[84] If I am wrong about the continuing nature of the breach then I have to examine whether the commencement of the prescriptive period is delayed because the pursuer lacked the necessary knowledge, either actual or constructive, in terms of section 11(3) of the Act. In so far as the pursuer's case rests on the terms of the agreements listed in Appendix B to the MDA there is irresistible force in the defender's submission, reliant on the case of *Anderson v Wilson*, that the true position could have been discovered just as easily on 5 May 2009 as at any later date and that the pursuer ought to have been aware of the true position as at the date of entering into the MDA. However, according to the pursuer's averments there were other documents affecting the defender's interest in the Patent Rights which were not listed in schedule B and which the pursuer did not necessarily have knowledge of and could not be expected to have had knowledge of until prudence dictated that it should carry out a comprehensive review when Marathon Oil Company offered to sell to the pursuer its shares in In-Depth. The question, in light of recent Supreme Court decisions, is does that matter? I say that it does not. At paragraphs 21 and 22 of *Gordon's Trustees v Campbell Riddell Breeze Paterson* Lord Hodge, with the agreement of the other justices, stated:

"21. It follows that section 11(3) does not postpone the start of the prescriptive period until a creditor of an obligation is aware actually or constructively that he or she has suffered a detriment in the sense that something has gone awry rendering the creditor poorer or otherwise at a disadvantage. The creditor does not have to know that he or she has a head of loss. It is sufficient that a creditor is aware that he or she has not obtained something which the creditor had sought or that he or she had incurred expenditure.

22. This approach is harsh on the creditor of the obligation, where the creditor has incurred expenditure which turns out to be wasted or fails to achieve its purpose, because the circumstances when the prescriptive period begins may not prompt an enquiry into the existence or likelihood of such loss..... But it offers certainty, at least with the benefit of hindsight."

[85] *Gordon's Trustees v Campbell Riddell Breeze Paterson* deals with a slightly different aspect of section 11(3) than does the earlier Supreme Court case of *David T Morrison & Co. Ltd v ICL Plastics Limited* 2014 [UKSC] 48. That case decided that earlier Scottish authorities such as *Glasper v Rodger* 1996 SLT 44 had misinterpreted the meaning and effect of section 11(3) when they decided that the creditor had to be aware not only of the fact that it had suffered loss but also that the loss had been caused by the act, neglect or default which caused it.

[86] The effect of these two Supreme Court decisions is that the creditor only needs to be aware that it has incurred expenditure which, even if unknown to the creditor at the time, has been caused by the act, neglect or default of another party. The pursuer in this case undoubtedly knew that it had made the royalty payments. The fact, if it be a fact, that the pursuer was not aware at the time of making the payments that the defender was in default of the MDA is neither here nor there. Section 11(3) does not avail the pursuer. The prescriptive clock began to run when the royalty payments were made.

#### *Single and Indivisible Obligation?*

[87] The next aspect I need to consider is whether the alleged losses of which the pursuer complains all flow from a single and indivisible obligation as explained in the case of *Dunlop v McGowans* 1980 SC (HL) 73 by Lord Keith of Kinkel:

“The language of section 11(1) affords of no warrant for splitting up, in the manner and to the effect contended for, the loss, injury and damage caused by an act, neglect or default. An obligation to make reparation for such loss, injury and damage is a single and indivisible obligation and one action only may be prosecuted for enforcing it. The right to raise such an action accrues when *injuria* concurs with *damnum*..... In the present case the loss, injury and damage flowing from the respondent's negligent omission occurred at Whitsunday 1971 when the appellant, but for that omission, would have obtained vacant possession of the premises. A

quantification of loss was capable of being made at that date, notwithstanding that it would then necessarily have had to be made on the basis of estimation, and that greater accuracy might have been capable of being achieved, in the light of supervening events, at a later date.”

[88] I think that the *Dunlop* case is distinguishable from this case. Each royalty payment in this case is related to sales or leases made during a particular accounting period. Each is clearly quantifiable and distinguishable and so does not give rise to the difficulty identified by Lord Fraser of Tullybelton in the *Dunlop* case where the loss included increases in contract sums and loss of rents, the dates for payment of which it was impossible to determine. The alleged loss in this case is not a single loss made up of different heads of claim emerging incrementally over a period of time and arising independently of the contract as a result of a single breach. It is an accumulation of losses arising under the contract itself. The pursuer was only bound to make each royalty payment in the particular accounting period if it made sales following the manufacture and distribution of the Products. Any obligation on the defender to make reparation in respect of that payment could only have arisen on the date of payment just as any obligation on the pursuer to make the payment could only have arisen on the due date for payment. I do not think that it is an answer to point out that there could be a multiplicity of actions for damages. In practice, that would be unlikely to happen.

*The Net Result in respect of Prescription*

[89] The result is that whether prescription applies to any particular royalty payment will depend on the date when that payment was made; or, in relation to the royalties covered by the advance payment of the \$1,650,000, the date when the amount due by way of royalties became deductible from the credit held by the defender. That is a matter for proof. If this

action were to survive this debate I would fix a proof before answer of the defender's prescription plea so as to allow it to maintain that argument in respect of such royalty payments as are found to be affected.

*Has the Pursuer Suffered any Loss?*

[90] The pursuer effectively says that as a result of certain circumstances relating to Agreements between the defender and the original patent holders or those deriving right therefrom the defender was not in a position to grant and/or was not in a position to maintain for the benefit of the pursuer the exclusive access to the Patent Rights and Know-how which were granted to the pursuer in the MDA. It says that, as a result, it has suffered loss because it has paid monies to the defender by way of royalties for which it has received nothing in return.

[91] The pursuer's case is fundamentally misconceived. It is self-evidently incorrect for the pursuer to maintain that it has received nothing as a result of the MDA. It must have received access to the Patent Rights and Know-how; otherwise it would not have been able to manufacture the Products and thereafter to distribute them by way of sale. Furthermore, the pursuer received the protection, and still has the benefit, of the warranties and indemnities granted by the defender in Article 8 of the MDA. These warranties and indemnities are valuable, in my view, because they essentially put the pursuer in the position of being able to access and make use of the Patent Rights and Know-how at the risk of the defender rather than at their own risk. Therein lies a fundamental distinction between this case and the analogy of exclusive access to a field put forward by the pursuer.

[92] In any event, the liability for the royalty payments arises out of the sale by the pursuer of the Products which it is able to manufacture as a result of its having access to the

Patent Rights and Know-how. The pursuer is in the position which it hoped to be in as a result of entering into the MDA. It has manufactured and distributed the Products and has generated income, and no doubt profit, in consequence thereof. It is the generation of that income, not the access to the Patent Rights and Know-how, as such, that has given rise to the obligation to pay royalties to the defender. The payment of those royalties cannot be categorised as a loss. Nor can payment of those royalties be categorised as Damages as defined in article 8.4 of the MDA.

[93] Unless the pursuer can say that it has suffered Damages, as defined in the MDA, by virtue of a successful claim against it by a third party for patent infringement or as a result of a third party lawfully exercising a right of access to the Patent Rights and Know-how, it cannot, in my view, have a right of action for damages. Put another way, the measure of the pursuer's loss in the first event would be whatever it had to pay by way of compensation or damages to the third party and in the second event would be its loss of profit. In neither event would it be what it has paid to the defender by way of the royalties that it was contractually bound to pay.

[94] The pursuer has no averments which, if proved, would entitle the court to find that it has suffered a loss.

***Is the Defender in Breach of the MDA?***

[95] I prefer the pursuer's interpretation of the MDA. Article 2.1(a) grants an exclusive right of access to the Patent Rights and Know-how. "Patent Rights" are defined as all of the defender's valid patents etc., including without limitation those patents and patent applications listed on Schedule A. In effect what the defender is saying is that those patents and patent applications listed in Schedule A belong to it and that they are valid.



Furthermore, the defender bound itself by Article 8(5) either to acquire such rights “as are necessary for Weatherford to continue to utilize (*sic*) the Products” or to fund a defence against claims of infringement etc. Neither of these things would have been necessary if all that was covered by the MDA were the Patent Rights so far as they belonged to the defender and so far as they were valid. The access was to the Patent Rights, full stop. The defender warranted by Article 8.1(b) that it had good and indefeasible title to and had all right and interest to and in all of the Patent Rights and Know-how. That seems to me to be a warranty against the whole world. Thus the defender was saying not only that it would not grant access rights to other parties but also that the pursuer would be protected against adverse claims made by other parties, whoever they might be.

[96] But that does not mean that the defender is automatically in breach of the MDA just because the pursuer has identified that there might be a difficulty with, or question mark over, the defender’s title to or interest in the Patent Rights.

[97] The pursuer has no averments to suggest that it has not, as a matter of fact, had exclusive access to the Patent Rights and Know-how. It has no averments to suggest that any third party has complained of patent infringement, far less that any third party has instituted legal action against it. Even if there were averments to that effect it is my view that before the defender could be found to be in breach and ultimately liable to the pursuer for Damages the pursuer would need to go further. It would have to aver that the defender had failed to remedy the situation by taking, or after having taken, advantage of the opportunity afforded by Article 8.5(a) of the MDA to acquire necessary rights and/or the opportunity afforded by Article 8.5(b) thereof, through the pursuer but at its own expense, to defend against such claims as might result in the defender being in breach.

[98] The pursuer seeks to make a distinction between a claim at common law and a claim under contract. There is no such distinction to be drawn. The pursuer's claim under this contract is a claim at common law, as opposed to a claim under statute. The pursuer is not free to pick and choose which contract terms are relevant to its claim. The contract must be looked at as a whole. Looked at in this way it is clear, as I have already pointed out, that the pursuer has received benefits which it contracted for, namely access to the Patent Rights and the protection of the warranties and indemnities. The pursuer is free to terminate the contract at any time by virtue of Article 7.4 of the MDA. But, whilst it continues to shelter under the warranty and indemnity conditions of the contract it is not in a position to claim that the defender is in breach unless and until the defender, having been given the opportunity to do so, fails to prevent a third party successfully asserting against the pursuer a better title to the Patent Rights and Know-how.

[99] In short, the pursuer's averments amount to no more than an apprehension or concern on its part that the defender might be found to be in breach of its warranties and that the pursuer might suffer Damages as a result.

### ***Result***

[100] In my view, even if the pursuer proves all of its averments it is bound to fail in obtaining both the declarator sought in crave 1 and the order for payment sought in crave 2. It follows that the defender's preliminary plea number 4 falls to be sustained and that the action falls to be dismissed.

**Expenses**

[101] I have not been addressed on the question of expenses. I have fixed a hearing to resolve that matter.