#52

IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY

CIV 2008-404-000161

UNDER	the Companies Act 1993
BETWEEN	BLOSSOM WOOL LIMITED Applicant
AND	JAMES WILLIAM PIPER Respondent

CIV 2008-404-000162

AND UNDER	the Companies Act 1993
BETWEEN	BLOSSOM WOOL INNOVATIONS LIMITED Applicant
AND	JAMES WILLIAM PIPER Respondent

Hearing:	26 June 2008
Counsel:	P T Finnigan for applicant R J Hollyman for respondent
Judgment:	30 June 2008 at 5pm

JUDGMENT OF ASSOCIATE JUDGE ABBOTT

This judgment was delivered by me on 30 June 2008 at 5p.m.
pursuant to Rule 540(4) of the High Court Rules.

Registrar/Deputy Registrar

Solicitors:
Romaniuk & Associates Law Offices, PO Box 105-763, Auckland, for applicant
Spencer Legal, PO Box 8080, Symonds St, Auckland, for respondent

[1] The two applicant companies Blossom Wool Limited (which I will refer to as Blossom Wool) and Blossom Wool Innovations Limited (which I will refer to as BW Innovations) have applied to set aside statutory demands served on them by the respondent, Mr Piper.

[2] Mr Piper is a patent attorney. He is a principal of the firm known as Pipers. Between June 2004 and May 2007, Mr Piper or employees of his firm made various patent applications and undertook related work for Blossom Wool and BW Innovations. Pipers rendered invoices for this work throughout the period, which remain unpaid. There is a difference of view as to the reasons for this.

[3] In December 2007, Pipers served statutory demands on both companies. Pipers sought payment of $52,135.83 from Blossom Wool in respect of professional services rendered between June 2004 and October 2005, and $145,991.73 from BW Innovations in respect of professional services rendered between September 2005 and September 2007. Blossom Wool and BW Innovations have applied to set aside those statutory demands. The principal grounds advanced were that :

a) Mr Piper had agreed at the outset not to seek payment until the product had been developed commercially, and was producing income from which to pay;

b) In any event the contract for services was only with Blossom Wool and BW Innovations has no liability for any of the costs; and

c) The demands were invalid because the formal requirements of s 104(1) of the Patents Act 1953 had not been complied with.

[4] Mr Piper says that he did not agree that he would not demand payment of his costs pending commercial development of the product, and that he was instructed by BW Innovations in respect of the work invoiced to it. He also says that he is not required to comply with s 104(1) of the Patents Act but that he has in fact done so.

[5] The Court must decide on these applications whether the applicants have shown that there is a genuine and substantial dispute as to whether the sums claimed in the statutory demands are now due and payable.

Relevant background

[6] The following material facts are not in dispute.

[7] Blossom Wool was incorporated on 21 July 2003. Its sole director and majority shareholder, Mr Gerald Smith, was the inventor of the process for which Mr Piper was engaged to seek patents and trademarks, namely turning waste wool fibre into a bed or substrate for propagating plants. Mr Smith assigned his rights to seek patents for his invention to Blossom Wool.

[8] Mr Smith approached Mr Piper in June 2004 and asked him to act. Mr Piper agreed to do so. There was a discussion about fees. Mr Piper and Mr Smith have different recollections as to what was said but Mr Piper acknowledges that the means of payment was identified as an issue. Mr Piper supported an application for a government grant to help pay for the patent expenditure. Although a grant was obtained none of it was ultimately available for payment of Pipers' fees.

[9] By the beginning of November 2004 Pipers had rendered five invoices for a total of $45,296.50. On 3 November 2004 Pipers wrote to Blossom Wool with an offer to lend funds to meet two of the invoices provided half of the total outstanding was paid by 20 November 2004. On 25 November 2004 Pipers wrote again enclosing signed copies of the outstanding invoices, noting that the requested payment had not been made, and requiring payment of the full amount of the invoices within seven days.

[10] In early December 2004, there was a meeting between Mr Piper, Mr Smith and Blossom Wool's accountant, Mr Hounsell. Mr Hounsell describes it as a meeting to discuss a number of matters including the status of the product, the business, the way forward and the registration of patents. He says that there was a discussion about Pipers' fees, and the incorporation of another company to hold the

intellectual property independent of Blossom Wool which was to be the trading company.

[11] Blossom Wool Innovations Limited (BW Innovations) was formed on 20 December 2004.

[12] Pipers made further patent applications in the name of Blossom Wool in December 2004, August 2005 and September 2005.

[13] In September 2005, Mr Smith's solicitors wrote to Mr Piper instructing him to transfer the existing patents in the name of Blossom Wool to BW Innovations. They said that this was to isolate the intellectual property from the commercial arm of the company. From the date of assignment of the patents from Blossom Wool to BW Innovations, Pipers made all patent applications (including renewals) in the name of BW Innovations.

[14] On 27 January 2006, Mr Piper was appointed a director of Blossom Wool. Throughout 2006 and until May 2007 he and his firm continued to act on patent matters. However, although applications were made in the name of BW Innovations, until 30 June 2007 invoices were rendered to Blossom Wool.

[15] In August 2007, Pipers prepared four provisional applications in the name of BW Innovations. The firm's covering letter to Mr Smith asked him to note that the firm intended to invoice BW Innovations for all future work. The invoices issued for those four applications were rendered to BW Innovations.

[16] Mr Piper resigned as a director of Blossom Wool on 3 October 2007. In a covering email Mr Piper stated that it was clear that Blossom Wool was insolvent, with no prospect of trading out of its difficulties, and that he had rearranged his firm's accounts so that they were rendered to BW Innovations in respect of work done subsequent to the assignment of the patent rights to it. This was done as at 28 September 2007 by issuing credit notes to Blossom Wool in respect of invoices rendered to it from 28 January 2006 to 28 May 2007 totalling $145,991.73, and issuing invoices to BW Innovations for the work covered by the reversed invoices.

[17] On 18 October 2007, Pipers wrote to BW Innovations, referring to the changes in invoicing, and requiring payment of all outstanding invoices within seven days failing which instructions would be given to wind up both companies. This led to an exchange of correspondence in which Mr Smith contested Pipers' entitlement to reverse the accounts, contending that all instructions relating to the patents had emanated from Blossom Wool and not BW Innovations, and Mr Piper responded saying that the work had been undertaken for BW Innovations as holder of the patents, and the costs were appropriately rendered to it as an expense against those assets. The statutory demands followed.

Applicable principles

[18] Counsel were agreed that the following principles applied in deciding whether the statutory demand should be set aside. The following summary is from Mr Finnegan's submissions:

a) The applicant must show that there is arguably a genuine and substantial dispute as to the existence of the debt;

b) The mere assertion that a dispute exists is not sufficient. Material short of proof, is required to support the claim that the debt is disputed;

c) If such material is available, the dispute should normally be resolved other than by means of proceedings in the Companies Court;

d) An applicant must establish that any counter-claim or cross demand is reasonably arguable in all the circumstances;

e) It is not usually possible to resolve disputed questions of fact on affidavit evidence alone, particularly when issues of credibility arise.

Was there an agreement to defer payment?

[19] The alleged agreement is said to have been made when Mr Smith first approached Mr Piper in June 2004. Mr Smith says that it was reached orally, as follows:

> ... At or about the time of the original instructions to Jim Piper, I made [sic] clear to him that Blossom Wool would not have the funds available to pay his fees until the process was commercialised and income earned from it. I gave Mr Piper full details of the invention.
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> Mr Piper subsequently considered the information. He was enthusiastic and thought that it was likely to have commercial success. He told me that he would act for Blossom Wool and that his fees would be payable out of the income to be earnt or he would be willing to accept a shareholding in lieu of fees rendered. Initially, the preference of Mr Piper and Blossom Wool was the latter.
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> Mr Piper then provided patient and trademark attorney services from this date until recently.

[20] Mr Piper disputes that there was any such agreement. He states in his affidavit in response:

> I knew from my initial meeting with Mr Smith that payment of fees would be an issue, as it often is for new inventors. However, Mr Smith certainly did not make it clear to me that he would not have the funds to pay my fees unless the invention was commercialised. At no time did I agree to be paid for my services out of future income from Mr Smith's invention. I would never have embarked on the patent work I did had I known that I would be paid out of future income. Mr Smith's allegation that I agreed to this is incorrect.

[21] Mr Piper said that he had suggested to Mr Smith that he seek a government grant to pay for patent expenditure (on the understanding that the money would be used to pay for the work his firm was carrying out) and that a subsequent arrangement to treat two invoices as paid was done to assist Mr Smith seek the government grant. He said it is his practice to encourage inventors in their endeavours as much as possible. He also acknowledges that there was a discussion about him investing in Blossom Wool, effectively by an offset of fees for shares, but that he indicated that that would be only to a limited amount ($20,000) and the proposal was never pursued.

[22] In an affidavit in reply Mr Smith disagreed with Mr Piper's view of their discussions, and continued to maintain that there had been an agreement. He referred to similar arrangements with Blossom Wool's accountant and solicitor. Mr Hounsell also gave an affidavit which was filed in reply in which he confirmed that he had performed professional services but had not issued an invoice on the understanding that he would be compensated if the venture succeeded, and then referred to a meeting in his office in early December 2004 with Mr Piper and Mr Smith where the issue of Pipers' fees was discussed (Mr Piper had written his demand letter of 25 October 2004 a week or so before). Mr Hounsell recalls the discussion as follows:

> In discussion on this topic, Mr Piper was informed by Mr Smith that he could not expect payment of fees on presentation of invoice; and that payment to him could only be from either receiving shares in BWL or once income had been generated following the commercialisation of the venture.

[23] Mr Hounsell also refers to a discussion at the meeting about incorporation of a separate company to hold the intellectual property and then stated:

> The meeting I refer to, ended with all persons present, including Mr Piper, expressing their agreement with all that had been discussed and optimism for the future of the venture.

[24] Counsel for the applicants argued that this conflict of evidence could not be resolved on this application, nor was it appropriate to do so. He submitted that the evidence of Mr Smith and Mr Hounsell, coupled with Mr Piper's subsequent conduct in not carrying out the threat in his letter of 25 November 2004 and continuing to undertake patent work throughout 2005, 2006 and part way into 2007 without making further demand, gave a basis for a genuine and substantial dispute over the alleged agreement.

[25] Counsel for Mr Piper argued that the language relied upon to establish the alleged agreement was too vague, and the terms too uncertain to be credible. He argued that it did not fit with the demand for payment made in November 2004, and the delay in pursuing payment should be seen as no more than a forbearance on the part of Mr Piper.

[26] I accept the submission of counsel for Mr Piper that the alleged agreement is vague and its terms are uncertain. If the point was to be decided as at 30 November 2004 it would be difficult, in my view, to find an arguable case for the agreement as alleged arising out of the exchange in June 2004, followed as it was by the demand letter of 25 October 2004. However, Mr Smith's allegations gain credibility when one considers the evidence of Mr Hounsell regarding the meeting in early December 2004 and Mr Piper's subsequent conduct in not pressing for payment for nearly two and half years. In that time Mr Piper took up a directorship of Blossom Wool, and put considerable time into pursuing patent applications. Both of these matters are consistent with a desire to bring the project to commercial fruition.

[27] It is not for me, on this application, to determine whether or not there was an agreement. I have merely to be satisfied that there is an arguable basis for one, so as to give rise to a genuine and substantial dispute as to the existence of a debt that is now due and payable. It may be that on closer examination it will be found that the exchange between Mr Piper and Mr Smith in June 2004 was too vague to constitute an agreement, or that the alleged terms are too uncertain to be enforceable. The explanation of delay in seeking payment may be no more than forbearance. However, taking all factors into account I am not persuaded that the matter is free from argument. Counsel for Mr Piper referred me to the evidence of Mr Piper that the statutory demands were the culmination of requests he had made of Mr Smith for payment from both Blossom Wool and BW Innovations since late 2004. However, there is no evidence before me of any demands for payment between the letter of 25 November 2004 and April 2007 (when Mr Hounsell says that he became aware, for the first time, that Mr Piper was asserting he was entitled to payment for his services and disbursements).

[28] I find that the applicants have established that there is a genuine and substantial dispute as to whether Pipers' invoices are due and payable.

Was there a contract with BW Innovations?

[29] Although I have already found that there is a basis for setting aside the statutory demand, for sake of completeness I will also address briefly the other grounds put forward.

[30] The applicants contend that BW Innovations did not instruct Pipers at any point. They say that the invoices were always correctly issued to Blossom Wool, and the decision to charge the work to BW Innovations was only made when Mr Piper formed the view that Blossom Wool was in financial difficulties. They also say that Mr Piper has given conflicting explanations as to the reason for change of invoicing, which supports their view that it was a retrospective decision.

[31] Mr Piper says that the invoicing of Blossom Wool after January 2006 was an error as a result of administrative oversight, and the reversal and subsequent invoicing of Blossom Wool was merely to correct that error. He points to the fact that all applications from January 2006 onwards were in the name of BW Innovations (and were signed by Mr Smith), and says that the re-invoicing was after discussion with Mr Hounsell, and was appropriate in matching the expense to the asset (held by BW Innovations).

[32] I do not accept that Pipers did not have instructions from BW Innovations to make the patent application. They were all signed by Mr Smith as director of BW Innovations, and nominated Pipers as the address for service. However, it is equally clear that invoices up until May 2007 were invoiced to Blossom Wool. The issue is whether this was in error, and more importantly whether it was to the exclusion of liability on the part of BW Innovations.

[33] I have some difficulty with the proposition that this was simply an administrative error. Mr Piper was clearly involved throughout. Invoices referred to applications in the name of BW Innovations, yet were rendered to Blossom Wool. Mr Piper was a director of Blossom Wool and ought to have been aware of the difference in the invoicing. It appears that the issue arose some time after a statement of account was issued to Blossom Wool on 30 June 2007, and further

patent work undertaken in August 2007. One of Mr Piper's employees has produced copies of four patent applications filed on behalf of BW Innovations in August 2007, together with proforma invoices issued to BW Innovations. This is the first time that any invoices were issued in its name. In the covering letter reporting these applications (sent to BW Innovations as distinct from Blossom Wool) Pipers state that it is the firm's intention to invoice BW Innovations for all future work. This certainly signals a change of approach, but there is no suggestion that earlier invoicing was incorrect.

[34] The subsequent change in previous invoicing appears to have been undertaken at the time that Mr Piper decided (on legal advice) to resign as a director, having regard to concerns about Blossom Wool's insolvency. In its following demand letter to BW Innovations (on 18 October 2007) Pipers justified the change as follows:

> In wording [sic] with Don Hounsell to bring the accounts into line and to match the invoices to the company that owns the IP – we will reverse some of the more recent invoices to Blossom Wool Limited and transfer them across to Blossom Wool Innovations Limited.

[35] This is a different explanation to the one of error advanced by Mr Piper, although the two are not necessarily mutually exclusive. However, in my view, there are sufficient questions about the circumstances relating to the reinvoicing to constitute a genuine and substantial dispute as to whether BW Innovations has been correctly invoiced, or whether there was an underlying arrangement (as the applicants contend) that Blossom Wool alone was to be responsible for these accounts. Although that seems unlikely (one would expect the patent owner to have an equal interest in procuring and obtaining the patents) it may be that that was the underlying commercial understanding between the parties. There is simply not enough information before me to determine this point. Nevertheless, I consider that it is arguable based on Mr Smith's contention that Blossom Wool was responsible for the costs of procuring and renewing the patents.

Are the demands invalid for failure to comply with s 104(1)?

[36] Section 104(1) of the Patents Act 1953 provides:

104 Recovery of patent attorney's charges

(1) No patent attorney shall commence or maintain any action for the recovery of any fees, charges, or disbursements paid or incurred or made by him for any business done by him as a patent attorney until the expiration of 7 days after a bill of the fees, charges and disbursements, signed by him (or, in the case of a partnership, by any of the partners with the name of the partnership), or enclosed in or accompanied by a letter signed in like manner referring to the bill, has been delivered to the party chargeable.

[37] Counsel for the applicants submitted that there was an arguable dispute as to whether or not Pipers had delivered signed invoices, or sent them under cover of a letter signed by Mr Piper (as principal of the firm).

[38] Although there is a possible factual issue as to whether signed invoices were provided in all cases, (particularly in light of my finding that there is a dispute as to whether BW Innovations has been correctly invoiced) I do not regard this as a valid ground for having the statutory demands set aside for two reasons. The first reason is that non-compliance with s 104(1) does not necessarily invalidate any debt. It simply precludes enforcement action until compliance. In my view it is capable of being cured, and has been subject to resolution of the issue over the correct invoicing.

[39] The second and more compelling reason is that the issue of a statutory demand, and any liquidation action which may follow, is not an action for recovery of fees, charges or disbursements: *Silverpoint International Ltd v Mclaughlin Park Limited* HC AK CIV 2007-404-104, 30 May 2007, Doogue AJ at paras [76] and [77]:

> [76] One way it is relevant, is that it is the basis for issuing a statutory demand. The function of statutory demands, in turn, is to assist a party in establishing that a company is insolvent for the purpose of liquidation proceedings. Failure to comply with an effective statutory demand gives rise to a rebuttable presumption that the company is unable to pay its debts. The existence of a debt may therefore be relevant to liquidation proceedings because it is the foundation of a statutory demand which in turn is relied upon to assist the creditor to prove in the liquidation proceedings that the company is insolvent.
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> [77] However in my judgment, the statutory demand is not a proceeding for the recovery of a debt. It is a preliminary step that frequently

> accompanies a winding up proceeding – which itself may be intended to recover a debt. But a statutory demand is not a "proceeding" as that term is normally understood, in the sense of being an application to a Court for a remedy.

[40] Although *Silverpoint* concerned the Construction Contracts Act rather than the Patents Act, I consider that the same principle applies.

Decision

[41] I consider that the statutory demands should be set aside on the grounds that there are genuine and substantial disputes as to whether the debts claimed are now due and payable, and as to the correct debtor. I order that they be set aside accordingly.

[42] As the applicants have been successful overall, they are entitled to costs on a 2B basis, together with any disbursements as fixed by the Registrar. This is a shared entitlement to costs rather than separate entitlement.

Associate Judge Abbott