[2010–12 Gib LR 349]

PERITUS LIMITED v. DETONE and WAMPUM LIMITED

SUPREME COURT (Dudley, C.J.): July 26th, 2012

Civil Procedure—costs—security for costs—unjust to order security if, in absence of litigation by claimant, defendant would have to commence proceedings to settle matter

The claimant company sought injunctive and declaratory relief to protect its alleged intellectual property rights.

The claimant company, in which the first defendant had a 50% beneficial interest, had been incorporated to develop and market online fantasy sports games. The first defendant had conceived at least some of the games, whilst a Mr. Gray had invested and procured third-party investment in the claimant. The claimant company sought injunctive and declaratory relief in the Supreme Court to protect its alleged intellectual property rights, the fundamental issue being whether the first defendant had transferred his rights in the games to the claimant.

The claimant had no known assets apart from its alleged rights in certain games and an alleged debt of £60,000, owed by the first defendant. Its only source of income was Mr. Gray, and its own schedule of expenses indicated outstanding liabilities of £264,000, of which £92,915 was said to be owed to the first defendant. Nevertheless, the claimant applied to the Supreme Court for interim injunctive relief against the first defendant, which it obtained upon a cross-undertaking not to develop or market the games, or disclose confidential information to third parties, until further order. It also undertook not to enforce the debt allegedly owed by the first defendant pending the outcome of the proceedings, but no undertaking was given as to damages.

The first defendant applied to the Supreme Court for orders that the claimant provide security for costs, and, upon the interim injunction already granted, sought a variation of the claimant's cross-undertaking to include an undertaking in damages, submitting that (a) there was reason to believe that the claimant would be unable to pay the first defendant's costs at trial, and it would be just to order it to give security; and (b) a cross-undertaking in damages was required to protect the first defendant from the potentially adverse consequences of the interim injunction.

The claimant submitted in reply that (a) its rights in the games and the debt due from the first defendant were liquid assets, and it would not be just to order it to pay security, as the dispute would have to be settled by the parties before the rights could be commercially exploited, whether or

not the claimant was in a position to pay the first defendant's costs; and (b) the court had already accepted its limited cross-undertaking and had no power to impose more onerous conditions.

Held, dismissing the application:

(1) Although there was reason to believe that the claimant would be unable to pay the first defendant's costs at trial, it would not be just, in all the circumstances of the case, to order that it provide security under the CPR, r.25.13. The claimant's intellectual property rights in the games and its possible debt action against the first defendant were illiquid assets that would not be taken into account in determining its ability to pay costs. Consequently, it would be deemed to have no funds. However, to order security for costs would not be just because (a) the first defendant would almost inevitably counterclaim to assert his rights in the games, and the dispute would have to be settled by the parties before the rights could be commercially exploited, whether or not the claimant was in a position to pay the first defendant's costs; and (b) the claimant had a stronger claim that the first defendant owed it a debt than *vice versa*, and had undertaken not to enforce the debt pending the outcome of the proceedings. The first defendant's application for security from the claimant would therefore be dismissed (paras. 4–11).

(2) Further, the application for a variation to the cross-undertaking to require an undertaking in damages would be dismissed. The claimant had given no cross-undertaking as to damages, but had given one not to develop or market the games, or disclose confidential information to third parties, until further order. Where, as in the present case, a limited cross-undertaking had been offered by a claimant and accepted by the court, the court had no power to impose more onerous conditions (paras. 12–16).

Case cited:

(1) *SmithKline Beecham plc* v. *Apotex Europe Ltd.*, [2006] 1 W.L.R. 872; [2006] 2 All E.R. 53; [2005] EWHC 1655 (Ch), followed.

Legislation construed:

Civil Procedure Rules, r.25.13: The relevant terms of this sub-rule are set out at para. 4.

K. Azopardi, *Q.C.* for the claimant;
A.A. Vasquez, *Q.C.* for the first defendant;
D. Trenado for the second defendant.

1 **DUDLEY, C.J.:** There is one substantive application before me in the sense that there is an application notice by which the first defendant ("Mr. DeTone") seeks security for costs from the claimant ("Peritus"). However, Mr. DeTone also seeks the variation of an undertaking as to damages given by Peritus consequent upon certain injunctive relief granted on May

17th, 2012 and the parties seek directions for an expedited hearing of the claim. I need not deal with the directions in this ruling, as I am given to understand by counsel that those matters, subject to the time to be afforded to carry out various steps, have been agreed.

2 I simplify the substantive claim brought by Peritus, which is set out in particulars of claim 53 pages long and containing 128 paragraphs, in which it seeks final injunctive and declaratory relief to protect what it says are its intellectual property rights in various games.

3 Peritus (in which Mr. DeTone has a 50% beneficial interest) was incorporated for the purpose of developing online fantasy sports games, with emphasis upon fantasy golf games. The principal individuals involved in this saga are Mr. DeTone who, at the very least, conceived the concept of some, but not all, of the games and Mr. Gray who is an investor and arranges third-party investment. The issues between the parties are not easily capable of being set out cogently, not least because as yet a defence has not been filed and there have been four waves of affidavits produced for the purposes of the *inter partes* hearing for interlocutory injunctive relief which the parties agreed should not proceed. However, the fundamental dispute is whether or not Mr. DeTone transferred the intellectual property held by him, if any, to Peritus. There are then multiple side issues which may in varying degrees assist in determining the substantive matter, including the terms of the "Malaga Airport agreement" which neither party is able to produce; the extent of the work undertaken by Mr. DeTone pre-incorporation of Peritus; what games or game ideas were Mr. DeTone's and which were not; past competing claims by others to intellectual property rights in various games; potential inconsistent positions taken by the parties; and allegations against Mr. DeTone of recent fabrication of material to bolster his case.

4 The application is made on the basis that the claimant is a company and that there is reason to believe that it will be unable to pay the defendants' costs if ordered to do so. The CPR, r.25.13 provides that the court may make an order for security if—

> "(a) it is satisfied, having regard to all the circumstances of the case, that it is just to make such an order; and
>
> . . .
>
> (2) . . .
>
> (c) the claimant is a company or other body . . . and there is reason to believe that it will be unable to pay the defendant's costs if ordered to do so."

The learned authors of 1 *Civil Procedure 2011*, para. 25.13.14, at 731–732 have this to say:

"**Proving insolvency or impecuniosity**

An applicant for security for costs . . . has to persuade the court that there is reason to believe that the company will not be able to pay costs if it subsequently ordered to do so . . . the test to be applied is lower than a balance of probabilities test: the court is not required to reach a conclusion as to whether or not the company will later be unable to pay such costs (*Jirehouse Capital* v. *Beller* [2008] EWCA Civ 908 . . .)."

5 In advancing the proposition that Peritus would be unable to pay Mr. DeTone's costs if ordered to do so, reliance is placed upon the witness statement of Ms. Georgina Caruana, which on this issue is to the effect that Peritus is not a trading company, it having been established to raise finance and commercialize the sports-fantasy games; that it has no known assets other than for the games, the subject-matter of the action; that it has not filed accounts since incorporation; and, significantly, that its bank statement shows that it is illiquid. Moreover, reliance is placed upon a schedule of expenses, which I understand was produced by the company, which shows that it has outstanding liabilities to individuals associated with the company of some £264,000, of which £92,915 is stated to be outstanding to Mr. DeTone.

6 The countervailing evidence is that some games (albeit there is dispute as to which or how many) were developed exclusively by Peritus and Mr. DeTone lays no claim to these, and that there is a loan agreement between Mr. DeTone and Peritus whereby, on April 18th, 2011, Peritus advanced £60,000 to Mr. DeTone, being repayable with interest on or before August 31st, 2011. Those moneys have not been repaid and indeed, following his resignation, in an e-mail communication dated February 7th, 2012 to various individuals at Peritus, Mr. DeTone, *inter alia*, stated: "For the avoidance of doubt, the loans I have received to date I will deal with personally and with integrity."

7 It is apparent from the evidence that Peritus does not have an income stream other than for funding provided by Mr. Gray and that its undisputed assets are limited to the intellectual property over certain games to which Mr. DeTone does not lay an adverse claim, and possibly the £60,000 loan to Mr. DeTone. I am of the view that these are assets which in the normal course of events are illiquid. In the circumstances, I have reason to believe that Peritus would be unable to pay Mr. DeTone's costs if ordered to do so. That the requirements of the CPR, r.25.13(2)(c) are met is a pre-requisite to the making of an order for security for costs, but the court must have regard to all the circumstances of the case and it must be just to do so.

8 At the hearing of the application there was a temptation on the part of Mr. Vasquez to stray into a detailed consideration of the merits, an

approach which the commentary in the *White Book 2012*, at para. 25.13.13 suggests is to be avoided. It is apparent that this is a case in which, absent the production of the written instrument governing relations between the parties, much will turn on the detailed cross-examination of witnesses and consideration of a plethora of documentation. In the circumstances, at this stage it would be unwise to form a view about the relative merits and I am of the view that both parties have a realistic prospect of success.

9 In exercising my discretion as to whether or not to order security, two reasons militate against its grant. The first is that, although as yet no defence has been filed, on the case advanced for Mr. DeTone it seems almost inevitable that he will counterclaim seeking declaratory relief as to ownership of the intellectual property in the games, that being the fundamental issue between the parties requiring resolution if either of them is to derive any benefit from those rights. If security were to be ordered and not paid, but Peritus maintained its claim to the intellectual property in the games, it is highly unlikely that any third party would invest in their development or marketing, and in those circumstances Mr. DeTone would need to have the matter determined.

10 The second reason which persuades me not to grant security for costs relates to the loan for £60,000 made by Peritus to Mr. DeTone. I do not ignore that the schedule of expenses produced suggests that Peritus owes Mr. DeTone £92,915, but when the merits of any claim which may lie in respect thereof is compared with the material supporting the £60,000 loan, I am persuaded that, as regards the latter, there is a significantly stronger prospect of success if a claim were to be brought. In those circumstances and given the undertaking offered by Peritus not to enforce that debt pending the outcome of these proceedings, I am of the view that it would be unjust to make an order requiring Peritus to give security for Mr. DeTone's costs.

11 For these reasons the application for security for costs is dismissed.

Undertaking as to damages

12 Upon the injunction granted in favour of Peritus, Mr. DeTone now seeks the standard cross-undertaking as to damages.

13 The application for injunctive relief first came before the court on May 17th, 2012 when Mr. DeTone appeared through counsel and a holding injunction was granted, the intention then being that the substantive hearing of the injunction would be heard on June 26th and 27th, 2012. Because of diary constraints those dates had to be vacated and re-listed for July 11th and 12th, 2012. In the event the application for injunctive relief did not proceed on July 11th and 12th, but Mr. DeTone was prepared to continue to submit to the injunction and use the time available before the

court to seek directions leading to an expedited hearing, the application for security and to seek the cross-undertaking as to damages.

14 It is of some significance that the holding injunction granted on May 17th, 2012 was made "until further order" and that although the usual undertaking as to damages was not given, Peritus did give an undertaking that it would not, until further order—

> "(a) take or continue to take any steps to progress the development or marketing of the games . . .; or
>
> (b) disclose to any party any confidential information . . ."

15 Mr. Azopardi properly relies upon *SmithKline Beecham plc* v. *Apotex Europe Ltd.* (1) as authority for the proposition that where a limited cross-undertaking is offered by the claimant and accepted by the court, the court has no power to impose a more onerous undertaking on the applicant.

16 It seems to me that that is the position in which the court finds itself, and, therefore, it is not open to me to require a more onerous undertaking or to seek its fortification. Mr. Vasquez suggested that if so required his client would no longer voluntarily submit to the injunction and would insist that the substantive hearing of that application proceed. In my view, Mr. DeTone, having indicated that he would continue to submit to the injunction and having agreed to have the court deal with other applications brought by him, cannot change tack and seek that the application for injunctive relief, which had been set down for two days, be dealt with at this hearing. The hearing of that application was vacated and, until further order, the order of May 17th, 2012 stands. It is, of course, open to Mr. DeTone to file an application seeking the discharge of the injunction which application would be listed for hearing in the usual way.

17 I make orders accordingly and I shall hear the parties as to costs.

Application dismissed.
