

THE EASTERN CARIBBEAN SUPREME COURT
BRITISH VIRGIN ISLANDS

IN THE HIGH COURT OF JUSTICE

CLAIM NO.: BVI HC (COM) 2012/0048

IN THE MATTER of an application pursuant to sections 184C and 184D of the BVI
Business Companies Act 2004

BETWEEN:

MICROSOFT CORPORATION

Claimant

and

VADEM LTD

Defendant

Appearances:

Mr Brian Lacy for the Claimant, Microsoft Corporation
Mr Paul Webster QC and Mr Kissock Laing for the Defendant, Vadem Limited

JUDGMENT

[2012: 8, 9 November]

(Sections 184C and 184D, Business Companies Act, 2004 – applicant member of respondent company seeking leave to commence derivative proceedings relying on causes of action belonging to the respondent company and to a wholly owned subsidiary of the respondent company – whether leave may be given for applicant to prosecute causes of action vested in the subsidiary – whether question affected by the fact that the law of the chosen forum would recognize the right of a member of a holding company to bring derivative proceedings in respect of rights vested in subsidiary – whether question affected by allegation that each of the holding company and the subsidiary is the *alter ego* of the other – *alter ego* doctrine considered)

- [1] Bannister J [ag]: This is an application by Microsoft Corporation ('Microsoft') for leave under section 184C of the Business Companies Act, 2004 ('section 184C', 'the Act') to commence proceedings in the Court of Chancery in the State of

Delaware in the name and on behalf of a BVI incorporated company, Vadem Limited ('Vadem BVI'), against a number of Defendants, including its founder and one of its two directors, Henry Fung ('Mr Fung'). Microsoft holds just under 12% of the issued share capital of Vadem BVI.

- [2] Vadem BVI needs to be distinguished from its wholly owned subsidiary, Vadem, Inc (referred to at the hearing as Vadem California). Vadem California was incorporated in 1983, and thus cannot have become a subsidiary of Vadem BVI until some time in 1993, when Vadem BVI was incorporated.
- [3] It appears to be the case that until about 15 June 2000 Vadem California was the owner of certain patents and/or patent applications for computer power saving applications and systems. On that date these assets were transferred to a company called Amplus, Inc ('Amplus') a Delaware corporation, for the sum of \$2. This appears to have occurred as part of an intended company reorganization, in the course of which Vadem BVI came to hold 40% of Amplus' shares (later increased to 50%) and Mr Fung 20%.
- [4] On 16 June these rights were transferred by Amplus to a Michigan company called St Clair Intellectual Property Consultants, Inc ('St Clair') for \$300,000 in cash, plus the first \$1 million of licensing revenues received and 50% thereafter. Mr Fung would therefore be entitled to 20% of this consideration, although there is no evidence that any of it was ever paid. Amplus was subsequently dissolved, its place in these arrangements having been taken by a Californian LLC called Patent Revenue Partners ('PRP'), the shareholdings in which appear to mirror those of Amplus.
- [5] Microsoft was not originally aware of these assignments and appears to have found out about them only in the course of litigation between Microsoft and St Clair which commenced in California in around 2009.
- [6] In October 2011 Microsoft commenced proceedings in Delaware against Amplus (apparently treated by the Court of Chancery as retaining corporate personality despite its earlier dissolution), St Clair, PRP and Mr Fung. Microsoft's claims included claims which it asserted derivatively in the name of Vadem BVI. The defendants moved to have those derivative claims dismissed on the grounds, among others, that Microsoft had not obtained the leave of this Court under section 184C to bring proceedings in the name of Vadem BVI. That contention was upheld by the Court of Chancery and those claims were dismissed without prejudice to Microsoft's ability to refile if permission is obtained – hence the present application.

[7] Section 184C is in the following terms:

184C. (1) Subject to subsection (3), the Court may, on the application of a member of a company, grant leave to that member to

- (a) Bring proceedings in the name and on behalf of that company; or
- (b) Intervene in the proceedings to which the company is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company.

(2) Without limiting subsection (1), in determining whether to grant leave under that subsection, the Court must take the following matters into account

- (a) whether the member is acting in good faith;
- (b) whether the derivative action is in the interests of the company taking account of the views of the company's directors on commercial matters;
- (c) whether the proceedings are likely to succeed;
- (d) the costs of the proceedings in relation to the relief likely to be obtained; and
- (e) whether an alternative remedy to the derivative claim is available.

(3) Leave to bring or intervene in proceedings may be granted under subsection (1) only if the Court is satisfied that

- (a) the company does not intend to bring, diligently continue or defend, or discontinue the proceedings, as the case may be; or
- (b) it is in the interests of the company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders or members as a whole.

(4) Unless the court otherwise orders, not less than twenty eight days notice of an application for leave under subsection (1) must be served on the company and the company is entitled to appear and be heard at the hearing of the application.

(5) The Court may grant such interim relief as it considers appropriate pending the determination of an application under subsection (1).

(6) Except as provided in this section, a member is not entitled to bring or intervene in any proceedings in the name of or on behalf of a company.

- [8] Mr Paul Webster QC, who has appeared together with Mr Kissock Laing for Vadem BVI, does not seriously contend that Microsoft should not have leave to pursue causes of action vested in Vadem BVI, but he submits that cannot pursue causes of action vested in its subsidiary, BVI California. He says that that would be to pursue a double derivative action, something which he submits is not permitted by the terms of section 184C.
- [9] Mr Brian Lacy, for Microsoft, submits that there is nothing in section 184C to exclude the ability of a member of a holding company to bring proceedings in respect of causes of action vested in a subsidiary and it is true that the words of the section do not include any such express exclusion. It is also true that, unlike section 184C, its counterpart, section 260 of the UK Companies Act 2006, contains clear language expressly restricting derivative proceedings in England and Wales and Northern Ireland to proceedings in respect of causes of action vested in the company of which the applicant is a member. At the same time, however, section 184C contains no words expressly enabling a double derivative action to be brought (in contrast to the position in Australia, New Zealand, Canada, Singapore and Hong Kong).
- [10] The question is one of pure construction and in my judgment section 184(1)(a), enabling the Court to give leave to a member to bring proceedings in the name and on behalf of the BVI incorporated company of which he is a member (*that company*), cannot be read as enabling the Court to give the member leave to bring proceedings in the name and on behalf of some other company. Proceedings cannot be brought 'on behalf of' a company' unless they are proceedings which the company itself is in a position to bring. In other words, leave given to Microsoft to commence derivative proceedings in Delaware will enable it to prosecute causes of action belonging to Vadem BVI, but not causes of action belonging to Vadem California or any other company.
- [11] Mr Lacy, who has prosecuted Microsoft's application with great skill argues, in effect, that this does not matter, for two reasons.
- [12] First, he submits that once Microsoft obtains leave under Section 184C, and even though that would not permit it to make a double derivative claim in the BVI,

nevertheless provided that the forum in which it intends to prosecute the proceedings would accept that it has a right to mount a double derivative claim, it will be able to prosecute in that forum causes of action vested in Vadem California. I do not accept that submission, which confuses the position as it might be if Vadem BVI were suing in Delaware pursuant to a valid resolution of its board of directors with the position where a member is suing on its behalf. That member's authority to sue is limited, for the reasons which I have given, to the prosecution of causes of action vested Vadem BVI. It has no authority to prosecute claims vested in third parties, even if that third party is a wholly owned subsidiary of the company of which it is a member, nor can it acquire that authority by getting on a plane and flying to Delaware. It does not matter that the Delaware Court might recognize Vadem BVI's right to prosecute claims belonging to Vadem California if Vadem BVI were suing in its own right. Microsoft cannot enlarge the authority with which it would become clothed, upon obtaining leave, by commencing proceedings in another jurisdiction.

- [13] The second way in which Mr Lacy puts it is that Vadem BVI and Vadem California are one and the same. In support of this proposition he relies upon some confused (or at any rate confusing) evidence given in California on deposition by Mr Fung and upon evidence that on a day to day basis the distinctions between the two companies, which had common directors and staff, were disregarded and that for practical purposes the board of Vadem BVI treated the intellectual property assigned on 15 June 2000 as belonging to Vadem BVI. BVI law does not have an alter ego doctrine based on carelessness or indifference in corporate administration and even if it did it, it would not alter the fact that the assets assigned were assets of Vadem California, not assets of Vadem BVI, and that the assignment of those assets was made by Vadem California, not by Vadem BVI.¹ Nor would it clothe Microsoft with an authority to sue on behalf of Vadem California not available to it under section 184C.²

- [14] I am therefore satisfied that Microsoft has no authority and cannot be authorized to prosecute, here or anywhere else, causes of action vested in Vadem California. On the other hand, it does seem to me, taking into account all the matters referred to in subsections 184C(2) and (3) (as to which there Mr Paul Webster QC, rightly, raised no serious issues) that Microsoft does make out a good case for leave to prosecute any claims which are vested in Vadem BVI and which arise out of the assignments of June 2000 and I propose to give it leave to do so. I leave it to

¹ there is in fact some confusion about the name of the assigning company, but there is no doubt that it was not Vadem BVI

² compare *East Asia Satellite Television Holdings Ltd v New Cotai LLC* [2011] 3 HKLRD 734 at paragraphs 72, 73

Microsoft to decide whether the terms in which that leave has been given means that there will need to be any amendment to the draft Verified Derivative Complaint exhibited to the affidavit sworn in support of the application by Ms Isabella Fu.

- [15] Section 184D of the Act obliges me to order, on giving leave, that Vadem BVI indemnifies Microsoft against its reasonable costs of the intended proceedings unless I consider that it would be unjust or inequitable to do so. I take the view that Vadem BVI should indemnify Microsoft and I so order.

A handwritten signature in black ink, appearing to read 'L. M. J.', is written over a horizontal line.

Commercial Court Judge

9 November 2012