

JUDGMENT : Mr Justice Lawrence Collins: Chancery Divison. 1st November 2005

I Introduction

1. Mr Sawyer, the Claimant, is a very successful designer and developer of computer games, in which he owns the copyright, among them Transport Tycoon, RollerCoaster Tycoon (and its add-ons), and RollerCoaster Tycoon II. His business is based in Scotland. He operates through an agent in England (Marjacq Micro Ltd).
2. The Defendant, Atari Interactive Inc, is a computer games distributor, and has licences to market the games. It is incorporated in Delaware and until earlier this year operated a studio in Beverly, Massachusetts, where new games were developed. It is a subsidiary of Atari Inc, which is based in New York. Both the Defendant and Atari Inc are subsidiaries of a French company, Infogrames Entertainment SA. In about 2001 Infogrames Entertainment SA acquired the Defendant (then called Hasbro Interactive Inc) from the well known games manufacturers, the Hasbro Group, and re-named it Infogrames Interactive Inc, and later, in about 2003, Atari Interactive Inc.
3. Atari Inc provides, in New York, administrative services to the Defendant, including the retention of accounting data and its royalty accounting function. The Defendant has associated companies around the world, but the evidence is that they remit accounting paperwork to Atari Inc in New York, where the worldwide royalty accounting takes place. While the business was in the Hasbro Group, accounting was done from Hasbro offices in Rhode Island.
4. There are five relevant licence agreements, to which I shall refer collectively as "the Agreements." Mr Sawyer originally licensed Transport Tycoon to an English company, MicroProse Ltd, by an Agreement dated June 15, 1994 ("the 1994 Agreement"). It seems that Hasbro acquired MicroProse Ltd in 1998 or 1999, and it is common ground that the Defendant has become the licensee under the 1994 Agreement by novation.
5. RollerCoaster Tycoon and two add-ons (Corkscrew Follies, and Loopy Landscapes) were licensed to the Defendant, then known as Hasbro Interactive Inc, by Agreements dated December 14, 1998 ("the 1998 Agreement"), October 25, 1999 ("the 1999 Agreement") and June 1, 2000 ("the 2000 Agreement") and RollerCoaster Tycoon II was licensed to the Defendant when it was known as Infogrames Interactive Inc by an Agreement dated May 17, 2002 ("the 2002 Agreement").
6. The 1994 Agreement provides for English law and English arbitration. The other four Agreements provide for English law, but do not contain a choice of court or arbitration.
7. The Defendant is the accounting party under all the Agreements. Gross turnover for the Atari Group for these games has been about \$180 million and the gross royalties received by Mr Sawyer have been in the region of \$30 million.
8. Disputes have arisen in relation to the royalties which Mr Sawyer claims to be due. In May 2003 Mr Sawyer exercised his audit rights under the Agreements and appointed Aberyc Ltd (forensic accountants) to conduct a review of the accounting books and records. Aberyc Ltd visited the New York office of Atari Inc, and a preliminary report was provided to Atari Inc on October 9, 2003. After subsequent visits to Atari's European offices a further report was produced on June 16, 2004.
9. Following a letter from Mr Sawyer's solicitors to Atari Inc, and subsequent correspondence between Mr Sawyer's solicitors and Atari's solicitors, Mr Sawyer has commenced proceedings in England, and obtained from Master Price permission to serve out of the jurisdiction. The Defendant applies to stay the action or to have the Master's order set aside: insofar as it relates to the 1994 Agreement because of the arbitration agreement; and insofar as it relates to the other Agreements (or alternatively all of the Agreements) because England is not the forum conveniens.
10. On the application, the Defendant says, in particular, that most of the issues involve accounting matters, and that the relevant witnesses and documents (or most of them) are in the United States. Mr Sawyer accepts that the action insofar as it relates to the 1994 Agreement must be stayed in view of the Defendant's reliance on the arbitration agreement, but says that the issues in the action relate essentially to questions of construction governed by English law, and that accordingly England is the appropriate forum.

II The Agreements

11. By the 1994 Agreement Mr Sawyer (defined as "the Author") granted MicroProse Ltd as the Publisher a licence to publish and sell Transport Tycoon. Clause 12.2 provided: *"The Publisher shall render accounts of the sales of the said Work as at March 31st, June 30th, September 30th and December 31st in each year, within 30 days of said dates, and all monies due to the Author shall be paid within two calendar months of the said date, provided however, that no account need be submitted unless specifically demanded nor payment made in respect of any period in which the sum is less than or equal to ten pounds, in which case the amount will be carried forward to the next accountancy date."*
12. Clause 18 gave Mr Sawyer the right, upon 30 days written request, to examine the accounts of MicroProse Ltd insofar as they related to the sales of the Work.
13. Clause 20 contained an arbitration agreement: *"If any difference shall arise between the Author and the Publisher touching the meaning of this Agreement, or the rights and liabilities of the parties thereto, the same shall be referred to arbitration in accordance with the provisions of the Laws of England."*
14. Clause 41 contained an express choice of English law: *"This Agreement shall be governed and interpreted according to the laws of England."*
15. The 1998, 1999, 2000 and 2002 Agreements contained provisions in substantially similar form:
 - (1) Clause 1(1) defined "Net Sales Revenues" as: *"means the aggregate actual invoice price of sales of copies of the Format^[1] (In the plural in the 1998 Agreement.) by [the Defendant], its parent company, subsidiaries or affiliates to unrelated third parties less returns, co-op advertising (limited to 4% of Net Sales Revenue), bad debts (limited to 3% of Net Sales Revenue, currency exchange fees and other customary trade and volume discounts actually given to Customers."*
 - (2) Schedule 3 of the Agreements provided that no later than 90 days^[2] (60 days in the 2002 Agreement.) after the end of each calendar quarter, payment of royalties would be made in sterling. But the Defendant was entitled to withhold from the royalties up to 10% of such royalties as an allowance against returns of defective products and: *"Such sums as are withheld shall be held by [the Defendant] in an interest bearing account (any interest earned to be re-invested in the account)."*
 - (3) Each of the Agreements contained under the heading "Audit" in clause 15 (in which the Claimant was defined as "the Developer"): *"The Developer (or its authorised representative) shall have the right (upon giving reasonable notice in writing) not more than once per calendar year during [the Defendant's] normal business hours to examine and make copies^[3] (The 1998 Agreement contains no express provision for the taking of copies) [of] [the Defendant's] records in respect of sales of the Format^[4] (4 In the plural in the 1998 Agreement.) and Derivative Products upon which the Developer receives a royalty under this Agreement. Any such examination shall be conducted in such manner as to not unduly interfere with the business of [the Defendant]. The Developer shall not (without the prior consent of [the Defendant] in writing) use the same auditor or audit firm simultaneously at [the Defendant] with any other developer. [The Defendant] shall keep and maintain proper and complete records and books of account relating to sales of copies of the Format for a period of 2 years from the end of the calendar quarter to which they relate. If the examination reveals an error of greater than 5% in the calculation of royalties for any quarter, then provided the amount owing due to the error is greater than £1000, [the Defendant] will reimburse the Developer for the reasonable costs of carrying out the examination."*
 - (4) Each of the Agreements contained under the heading "Governing Law" (in clause 27 of the 1998 and 2002 Agreements and clause 26 of the 1999 and 2000 Agreements) : *"This Agreement shall be governed by and construed in accordance with English law."*
 - (5) Each of the Agreements also contained in Clause 6(3) (in the 2000 and 2002 Agreements) or clause 6(5) (in the 1998 and 1999 Agreements) the following provision: *"Notwithstanding anything herein to the contrary, if any customs duties, sales, use or withholding or similar taxes are imposed on any Royalties or [the Development Fees]^[5] (These words are not in the 2000 and 2002 Agreements.) payable to the Developer, then the amount of such taxes will be deducted and withheld by [the Defendant] from such Royalties or Development Fees and the Developer shall only be entitled to receive the net amount of the Royalties [or Development Fees]^[6] (These words are not in the 2000 and 2002 Agreements.) after such deduction or withholding. [The Defendant] will give reasonable assistance to the Developer in obtaining certification of such deductions at the Developer's cost."*

III The proceedings

16. Eversheds, the Claimant's solicitors, sent a letter before action on November 1, 2004 addressed for the attention of Atari Inc's General Counsel. Having received no response, in February 2005 they threatened to commence proceedings in the English High Court. The Defendant instructed English solicitors, Harbottle & Lewis, who sent a holding response on February 25, 2005. Harbottle & Lewis sent a substantive response on March 18, 2005, which also proposed a mediation in England. It also proposed that the issues should be narrowed to issues of construction. Eversheds replied in detail on April 7, 2005. A response was promised by April 22, 2005, but was not received. Accordingly, on May 9, 2005, the Claimant issued proceedings and applied for permission to serve out of the jurisdiction.
17. Paragraph 9 of the witness statement of Mr Gardiner, of Eversheds, in support of the application for permission to serve out, disclosed the arbitration clause in the 1994 Agreement. The witness statement relied on CPR, r. 6.20(5)(a)(b) and (c), and stated (in particular) that England was the most appropriate and convenient forum for the following reasons: first, the applicable law was English law; second, the Claimant lived in the United Kingdom and had no base in the United States; the Defendant had a business presence in England, including Atari United Kingdom Ltd; third, it would more convenient and less expensive to conduct the litigation in England. The applicable law was English law, so that expert legal evidence would be unnecessary, and the relevant documents (principally the Agreements) were in English. Any witnesses would be English speakers who were likely to be resident in England. Fourth, the Defendant had already appointed English solicitors to deal with the claim. On May 23, 2005, Master Price gave leave to serve out.

IV The particulars of claim

18. The particulars of claim plead as follows:
 - (a) The Defendant has acted in breach of clause 18 of the 1994 Agreement and clause 15 of the 1998 to 2002 Agreements by refusing to permit an audit in respect of the period prior to January 26, 2001.
 - (b) On or about May 20, 2003 the Claimant gave formal notice to the Defendant of his intention to conduct an audit, using Aberyc Ltd as his appointed auditors, on all books and records relevant to the exploitation of the software in periods covered by royalty statements rendered from January 1, 1999 to the end of March 2003.
 - (c) The Defendant has repeatedly refused to permit the auditors to conduct an on-site audit, and the Claimant was not permitted to conduct any on-site visits as provided for by clause 18 of the 1994 Agreement and clause 15 of the 1998 to 2002 Agreements.
 - (d) As a result in respect of the period, his audit was limited to a full desktop review and analysis.
 - (e) As a result he has suffered loss and damage, and is entitled to an order for specific performance.
 - (f) Similar allegations are made in respect of the period following January 26, 2001.
 - (g) In breach of the Agreements the Defendant has failed to pay him sums due:
 - (1) refusal to pay interest on late royalty payments: \$14,825;
 - (2) wrongful deduction from royalties on United States sales of a fixed deduction of 4%, for which there is no proper basis: \$153,609;
 - (3) wrongful deduction of excessive advertising costs: \$287,018;
 - (4) failure to pay interest on late release of reserves: \$2,094,256;
 - (5) non-payment of royalties due to missing input: \$32,523;
 - (6) non-payment of royalties/advances on third party income: \$139,244;
 - (7) wrongful deduction of 10% from total sales revenue before 2001: \$1,742,663;
 - (8) non-payment of royalties on sums paid by K-MART: \$2,363;
 - (9) over-deduction for bad debts: \$7,339;
 - (10) wrongful deduction of withholding tax: \$27,448;
 - (11) wrongful deduction of 3% of royalties from the Defendant's French affiliate in respect of Rollercoaster Tycoon II: \$61,134;
 - (12) wrongful payment of royalties in US dollars, involving a loss of \$42,116; and
 - (13) wrongful refusal to pay audit fees: \$218,500.

19. As a result the Claimant claims payment of US \$4,823,038, and seeks an order for specific performance of the Defendant's obligation to permit an on-site audit for the period from January 1, 1999 to January 26, 2001 and an order for specific performance of the Defendant's obligations to provide all documents required by the Claimant for audit purposes in respect of the period following January 26, 2001, and an order that the Defendant should account for all sums due for the period January 1, 1999 to date, and an order for payment of all further sums found to be due to him on the taking of the account.

V The application to set aside

20. Eversheds had threatened the Defendant with legal proceedings in their letter of November 1, 2004, and repeated the threat in letters of November 22, 2004 and February 22, 2005 (with which they enclosed draft particulars of claim) to the Harbottle & Lewis, who (as I have said) replied to the substance of the claim on March 18, 2005. In a fax dated March 11, 2005 Harbottle & Lewis referred to the arbitration clause in the 1994 Agreement, and asked whether it had been overlooked. In their letter of March 18, 2005, they indicated that if proceedings were issued, part of the claim would be stayed because of the arbitration clause in the 1994 Agreement. They proposed mediation by an English mediator, Mr Nicholas Pryor.
21. On July 1, 2005, the Defendant's present application was made. It sought a declaration that the court has no jurisdiction, or alternatively a stay, and the setting aside of permission to serve out; a stay under Section 9 of the Arbitration Act 1996 in respect of the 1994 Agreement; and an extension of time to make the applications out of time.

Defendant's arguments

22. The Defendant is incorporated in Delaware, and all its administrative services are provided by Atari Inc in New York. Atari United Kingdom Ltd is a distributor and has no contractual relationships with the Claimant and no involvement in any of the issues in the proceedings. The case is a largely fact-based dispute with little (if any) law involved. It will turn in large part on accountancy evidence as to what sales have been made, and what deductions can properly be made from gross sales before they are accounted to the Claimant, on which expert evidence will be required.
23. Where the only foundation for jurisdiction is the application of English law to a contract, the court should be less attracted to the exercise of its discretion than in the case of a claim which qualifies under one of the other heads of CPR, r. 6.20(5).
24. The core claims are for specific performance of the Agreements: to allow the Claimant to conduct an audit of the Defendant's royalty accounting records for the period January 1999 to January 2001; and to afford the Claimant disclosure of the documents required to conduct an audit of the Defendant's royalty accounting records for the period after January 2001 together with orders for an account and for payment of money.
25. The questions which are most likely to arise on the trial of such claims are the contractual entitlement to audit and to disclosure of documents; and the nature and extent of the audit that will follow. The issues will turn on questions of construction to be determined under English law, but on well-known principles where little if any extraneous evidence will be permitted (*Investors Compensation Scheme v West Bromwich B.S.* [1998] 1 WLR 896, 912-4 *per* Lord Hoffmann). The question of the nature of any audit will be determined in accordance with the custom and practice of the industry and in particular with the manner in which an American video game publishing house can normally be expected to account for royalties accruing on worldwide sales of product. The custom and practice will be determined on expert evidence and the experts are most likely to be American.
26. The Defendant's accountancy and royalty administration is conducted from New York (formerly Rhode Island when the Defendant was still part of the Hasbro Group). By far the greatest volume of sales the subject of these claims took place in the United States and will have been administered and accounted for there. The Defendant has subsidiaries in many countries in the world, each of which conducts local or territorial sales of product. Each of those subsidiaries reports for accounting and royalty purposes to the New York administrative office of the Defendant: they send the necessary documents and records to New York, including agreements, invoices to wholesalers and related statements and invoices from advertisers. The New York administrative office of the Defendant then carries out the accounting and royalty calculation work and holds the supporting records.

27. There will be three main bodies of evidence at trial. The first will be experts (probably American), who will deal with to the issue of the royalty reporting requirements of an American video game publishing house. The second body of evidence will be the documents to be audited and/or to be disclosed. By far the greatest bulk of relevant documentation will have to come from the Defendant, the principal source or location of which is the administration centre in New York. The documents will consist of both printed and electronic records, and the electronic files are stored as part of the Defendant's general accounting records on heavily-used computers in New York. It is not realistic to simply transfer the files onto a disk: an audit and/or account is a painstaking and detailed process requiring the identification and examination of very large numbers of disparate primary and secondary accounting records, often over a period of time. The third body of evidence is witness evidence. By far the most relevant testimony to the question of whether the Defendant has under-accounted and under-paid royalties will be that of the relevant accounting personnel employed by the Defendant (for the period in which the Defendant did the accounting) or by Hasbro (if available and relating to the earlier period). The Claimant's witnesses can give very little (if any) relevant testimony.
28. Were the action to be allowed to proceed in England, the very great bulk of the disclosure and the whole of the audit would have to take place overseas. The natural forum for this litigation must be New York, where the documents are held and where almost all of the audit is likely to take place. By far the greatest percentage of the worldwide sales (the subject of these royalty claims) took place in the United States. The first audit (which is criticised by the Claimant) took place in New York, and that was because the relevant documents and records are in New York and not (as the Claimant suggests) because the Defendant was being difficult.
29. Most of the alleged under-accounting relates to the Hasbro period; the evidence is that the Atari group has no immediate right to this material. There will be a greater chance of obtaining this evidence (both documents and the testimony of US resident employees and ex-employees of Hasbro) with less delay, difficulty and cost if the case is conducted in New York. If the case proceeds in England, the cumbersome, time consuming and expensive letters rogatory procedure will be the only option. Furthermore it is likely to be more convenient and less intrusive to the third party Hasbro witnesses for their evidence to be obtained and given through New York proceedings.
30. Since the focus of these claims is the conduct of the Defendant in royalty accounting, it will be necessary for the Defendant to be advised by its US lawyers throughout. There will be the additional need for English lawyers to act if the claim proceeds here. That cost will not be incurred if the claims go to New York.
31. The connecting factors relied on by the Claimant are distinctly outweighed by those connecting the case to New York. The Claimant makes a case that he is a "smaller player" than the Defendant for whom litigation in England would be more convenient. The reality is that the Claimant (who is based in Scotland and but for the fact that there is an English choice of law clause in the licences would have no right whatsoever to invoke the jurisdiction of the English court) is a substantial developer of video games and he has an interest in a design studio which employs several other people; but a claimant will always assert the convenience to him of a trial at home (although England is not this Claimant's home): that is not enough, there must be a greater connection with England; convenience to the Claimant is heavily outweighed by the inconvenience to the Defendant in having to engage in litigation, ship disclosure abroad, instruct foreign lawyers, send experts and arrange for attendance at trial in a jurisdiction with which the claim has no real or apparent connection. So far as witnesses are concerned, the Claimant himself is based in Scotland; the Claimant's other witnesses are said to be based in England: two are from the Claimant's English agents and two are from the auditors engaged by the Claimant to audit the Defendant's records. It is hard to envisage what relevant (or admissible) evidence can be given by the agents. The location of the auditors is fortuitous and need not inform the choice of jurisdiction in this case; the witnesses who will be called to explain what has or has not been disclosed and/or to explain the extent of the material for audit are the New York based employees of the Defendant (and of Hasbro).
32. There is no ground for a suggestion that England is the "natural forum" or even an appropriate forum for the determination of these claims. English governing law is the only clear factor connecting these claims to England; all the other connecting factors point to a greater or lesser extent to New York; the question of the

governing law is rarely determinative in the exercise of the discretion. This is particularly so where the New York court is familiar with the language and has very similar law; the principles of construction in English law are settled and easily understood and applied; and (at least on the Defendant's case) there is little law involved in this dispute: the main issues will be as to practice and the facts.

Claimant's arguments

33. The fact that a contract is governed by English law, particularly under an express choice of law clause, is an important, indeed frequently determinative, factor because the court will presume that English law is best applied by the English court; and the court will assume that by expressly choosing English law, the parties were indicating at least a preference to litigate in England: *BFC Aircraft Sales and Leasing Ltd v Ages Group Plc* (Morison J, unreported, December 14, 2001); *Coast Lines Ltd v Hudig and Veder Chartering NV* [1971] 2 Lloyd's Rep 390 per Roskill J at 395-396, affd [1972] 2 QB 34.
34. The parties' expectation that litigation would be conducted in England could not be more clear. There is no basis for the proposition advanced by the Defendant that New York law is no different from English law.
35. The audit claim and the claim in respect of books and records turn on the construction of the contract. There is English case law on the obligation to provide access to books and records in similar contracts: *Polygram Film International BV v Columbia Tri-Star*, Court of Appeal, February 8, 2000. Not only will the general English case law regarding construction have to be applied, but there is specific case law on, for instance, the meaning of the "books and records" clause and on entire agreement clauses. Head 1 (interest) turns on construction and/or the application of the Late Payment of Commercial Debts (Interest) Act 1998. Head 2 (4% deduction on US Sales) turns on construction. Head 3 (over-deduction of advertising costs) turns on construction. Head 4 (reserve account interest) is admitted, save for a dispute as to quantum. Heads 5 and 6 have not been disputed. Head 7 (10% deduction during Hasbro period) is still being investigated. Heads 8 and 9 have not been disputed. Head 10 (withholding tax) turns on construction. Head 11 has not been disputed. Head 12 (exchange rate loss) is a simple factual issue turning on the exchange rates applicable for one particular quarter. Head 13 (audit fees) is a simple question of whether the wrong accounting on Heads 1 to 12 exceeds 5% of the royalties accounted in the period of the audit. Accordingly, much of the claim is undisputed; where there is a dispute will turn almost entirely on issues of English law, principally on the construction of the contracts.
36. The Defendant's case for New York exaggerates the extent to which factual issues will arise. Although Mr Abramson says in his first witness statement (para 13) that it will be a "*largely fact based dispute*," he wrote to the Claimant's solicitors on March 18, 2005, proposing to "*narrow the issues so as to make whatever litigation and/or arbitration that follows limited to specific issues of construction.*"
37. Neither party is domiciled in the proposed alternative forum, New York. Both parties trade in England. There was no mention of any jurisdictional challenge in the pre-action correspondence. The Defendant's solicitors were able to address the issues in detail and even proposed mediation in England.
38. There is no evidence that accounting and industry experts will have to come from the United States. The areas of expertise are worldwide. If New York were to be the forum, there would have to be a third category, experts in English law, who would indeed have to travel to New York.
39. As regards documents, the assertion is that the "primary documents" are located in New York. However, even if correct this is only from the Defendant's perspective. The Claimant's documents are in England. Some of the Defendant's documents are located in the United Kingdom. If there are relevant documents in New York, then it is conceded by the Defendant that they are in electronic form. It is also conceded that they could be brought to England in disk form.
40. The Defendant can call for Hasbro documents under the sale agreement. The suggestion by the Defendant that unidentified persons at Hasbro will be needed to explain the documents is pure speculation.
41. As for witnesses, it is not at all clear what evidence witnesses on either side could usefully give on the issues in dispute, save for evidence regarding the conduct of the audit which in fact took place, which would come from the auditors Mr Abery and Mr Caplin, both resident in England. The Claimant has identified these two witnesses, together with the Claimant and his representative as its likely witnesses (all resident in England). The Defendant claims that it will wish to call four US witnesses, although for what

purpose is not clear. Such witnesses could give evidence by video link. Witness convenience is thus at best a neutral factor in this case.

VI The procedural point

42. By CPR, r. 11(1), (2) and (4) a defendant who wishes to dispute the court's jurisdiction must file an acknowledgment of service, and within 14 days make an application. By CPR, r. 11(5), if the defendant files an acknowledgment of service, and does not make an application within the 14 day period he is to be treated as having accepted that the court has jurisdiction.
43. No application was made within the 14 day period because the Defendant's solicitor, Mr Abramson, of Harbottle & Lewis, was under the misapprehension that (as had indeed been the case prior to a change in CPR, r. 11(4) in 2001) he had until the expiry of the time for service of the defence to make the application.
44. The Defendant seeks an order extending the time under CPR, r. 11(4) for the 10 days or so necessary to ensure that the application was made in time and that the deemed submission is not treated as having happened. The Claimant does not make any submissions in opposition, but simply submits that before I make such an order under CPR, r. 3.1(2)(a) I should be satisfied that I have jurisdiction to do so, and that, if I have jurisdiction, it would be an appropriate case for its exercise, in particular by reference to the checklist in CPR, r. 3.9.
45. The power under CPR, r. 3.1(2)(a) to extend time may be exercised "Except where these Rules provide otherwise...". Although CPR, r. 11(5) contains a deeming provision providing for the consequences of non-compliance, there is nothing in the rule which displaces the court's general discretion to extend time.
46. It had been held in several decisions at first instance under the previous version of CPR, r. 11(4) (when the time-limit was linked to the period for service of defence) that the court had power retrospectively to extend the time for service of defence so as to allow the defendant to contest the jurisdiction: *USF Ltd v Aqua Technology Hanson NV/SA*, January 30, 2001; *Midland Resources Ltd v Gonvarri Industrial SA* [2002] I.L.Pr. 74 and *Monrose Investments Ltd v Orion Nominees Frichmond Corporate Service Ltd.* [2002] I.L.Pr. 267; *SSQ Europe SA v Johann & Backes OHG* [2002] 1 Lloyd's Rep. 465. In *Burns-Anderson Independent Network Plc v Francis Henry Wheeler* [2005] 1 Lloyd's Rep. 580 at paras 30-34 (HH Judge Havelock-Allen QC, Bristol Mercantile Court) the power to extend the 14 day period in CPR, r. 11(4) was assumed to exist.
47. I am satisfied that I have power to extend the period. It would be absurd if a simple error by solicitors as to the time limit had the potentially far-reaching effect of causing a submission to the jurisdiction, which could not be rectified by an application for an extension of time, and which would lead to a further application by the defendant for a stay of proceedings (in which the burden would be reversed), and perhaps (if damage could be shown) to an action for negligence against the solicitors.
48. I am also satisfied that this would be a proper case for the exercise of the discretion. The administration of justice would not be affected by granting an extension, whereas a failure to do so might involve a case being heard in England which might otherwise not have been. The application for an extension was made promptly. There is no prejudice to the Claimant, except its inability to rely on the mistake made by the Defendant's solicitor. The reason for the failure was understandable, if not excusable, and it was the failure of the solicitors and not of the client.

VII Applicable principle: relevance of choice of English law

49. The relevant principles relating to jurisdiction are these. CPR 6.21(2A) provides that the court will not give permission for service out of the jurisdiction unless it is satisfied that England is the proper place to bring the claim. The claimant has to satisfy the court of three matters: first, that it has a cause of action against the defendant "with a reasonable prospect of success" (CPR 6.21(1)(b)); second, that the case falls within one of the heads of CPR 6.20; and third, that England is the appropriate forum.
50. On the first question, it was held under RSC Order 11, the predecessor of CPR, r. 6.20, that the standard of proof which the claimant had to satisfy in showing that it had a cause of action was whether, on the written evidence, there was a serious question to be tried, i.e., a substantial question of fact or law, or both, which the claimant *bona fide* desires to have tried: *Seaconsar Far East Ltd v Bank Markazi Iran* [1994] 1 AC 438. CPR, r. 6.21(1)(b) now requires the claimant to adduce evidence stating that he believes his claim has "a

reasonable prospect of success," and it has been held that this threshold is the same as if the claimant were resisting an application by the defendant for summary judgment: *Carvill America Inc v Camperdown UK Ltd*. [2005] EWCA Civ. 645. In practice this may be no different from the traditional test of "serious issue to be tried."

51. On the second question, the standard to be applied when deciding whether the jurisdiction of the court had been sufficiently established under one or more of the heads of what is now CPR, r 6.20 is that of good arguable case, which is a concept with some degree of flexibility depending upon the issue: *Canada Trust Co v Stolzenberg (No 2)* [1998] 1 WLR 547, at 558, at 558, per Waller LJ, approved [2002] 1 AC 1, at 10, per Lord Steyn.
52. On the third question, which goes to the discretion of the court, the claimant must show good reason why service on a foreign defendant should be permitted: see *Amin Rasheed Shipping Corp v Kuwait Insurance Co* [1984] AC 50; *Spiliada Maritime Corp v Cansulex Ltd* [1987] AC 460. In *Spiliada Maritime Corp v Cansulex Ltd* [1987] AC 460 at 478 et seq, Lord Goff of Chieveley confirmed that in service out of the jurisdiction cases the burden of proof was on the claimant, whereas in stay cases the burden was on the defendant: "*The effect is, not merely that the burden of proof rests on the plaintiff to persuade the court that England is the appropriate forum for the trial of the action, but that he has to show that this is clearly so. In other words the burden is, quite simply, the obverse of that applicable where a stay is sought of proceedings started in this country as a right.*" (at 481).
53. In the present case, it is conceded that the claim on the merits has a reasonable prospect of success, and that the case falls within CPR, r. 6.20(5)(c) on the basis that the Agreements are governed by English law. It has therefore not been necessary to deal on this application with the Claimant's additional contentions that the claim falls within CPR, r. 6.20(5)(b) (contract made within the jurisdiction) or CPR, r. 6.20(5)(c) (contract made by or through an agent trading or residing in England: but this applies where the proposed defendant's agent is in England, and not, as in this case, where the Claimant's agent is in England: see *Union International Insurance Co Ltd v Jubilee Insurance Co Ltd* [1991] 1 WLR 415).
54. The only issue is whether England has been shown by the Claimant to be the clearly appropriate forum. This is not an exercise involving the counting of contacts, but of identifying so far as is possible (*ex hypothesi* in the absence of a formal defence) the issues, and then considering the appropriateness of the competing fora. It was for this reason that in *Limit (No. 3) Ltd v PDV Insurance Co*. [2005] EWCA Civ. 383, at para. 73, Clarke LJ said that the defendant should identify the issues which are appropriate to be tried in the foreign court.
55. The main issue between the parties is the relative significance in the equation of English law as the expressly chosen governing law of the Agreements.
56. In *Amin Rasheed Corp v Kuwait Insurance Co* [1984] AC 50, Lord Diplock said (at p.65) that this head of jurisdiction was an exorbitant jurisdiction, i.e., it was one which, under general English conflict rules, an English court would not recognise as possessed by any foreign court in the absence of some treaty providing for such recognition. Comity dictated that the judicial discretion to grant leave under this paragraph should be exercised with circumspection in cases where there existed an alternative forum, that is, the courts of the foreign country where the proposed defendant carried on business and whose jurisdiction would be recognised under English conflict rules.
57. In *Spiliada Maritime Corp v Cansulex Ltd* [1987] AC 460, at 481, Lord Goff of Chieveley said that the fact that English law was the proper law of the contract might be of very great importance, or it may be of little importance in the context of the whole case. At 486 he said that it was a relevant factor that the litigation was being fought under a contract governed by English law, and that was by no means an insignificant factor, since there was not only a dispute as to the effect of the bill of lading contract but also as to the nature of the obligations under the contract.
58. In *BP Exploration Co (Libya) v Hunt* [1976] 3 All ER 879, 893 Kerr J said that the fact that the contract was governed by English law was the predominating factor to be borne in mind. Unless there were other considerations of overwhelming weight which militated against the English courts, the appropriate forum for deciding the rights of the parties under English law were the courts of England. In Texas it would be

necessary to adduce expert evidence on English law. But in *The Elli 2* [1985] 1 Lloyd's Rep 107, at 118, May LJ said that he would not go so far as Kerr J in saying that the fact that English law was a predominating factor. That factor would have a **different weight in different circumstances**. See, e.g. *MacSteel Commercial Holdings (Pty) Ltd v Thermasteel* [1996] CLC 1403; *The Prestrioka* [2003] 2 Lloyd's Rep 327 (C.A.).

59. Elements of significance which may persuade the English court that the choice of English law makes England the appropriate forum but which do not arise in this case include the fact that issues of English public policy may be involved (as in *EI du Pont du Nemours v Agnew* [1987] 2 Lloyd's Rep 585; *Mitsubishi Corp v Alafouz* [1988] 1 Lloyd's Rep 191) or the fact that the foreign forum, notwithstanding the express choice of English law, may not apply English law, and may instead apply its own law: *Coast Lines Ltd v Hudig and Veder Chartering NV* [1971] 2 Lloyd's Rep 390, affd [1972] 2 QB 34. See also *The Magnum* [1989] 1 Lloyd's Rep 47.
60. Mr Hunter for the Claimant relied on *BFC Aircraft Sales and Leasing Ltd v Ages Group Plc* unreported, December 14, 2001) in which Morison J said, at para 10: "*The choice of the applicable law is, clearly, not so strong a feature as a choice of jurisdiction clause, but it may be, and in this case is, I think a strong indication of an expectation that England will be the forum for the trial of the parties' disputes ...*" That was simply a case in which the choice of English law was a determinative factor. It is not authority for the proposition that a choice of law is equivalent to a choice of jurisdiction.
61. There is a basic distinction between choice of law and choice of jurisdiction. It is contrary to principle to suggest that by agreeing to English law the parties must be regarded as contracting in the light of CPR, r. 6.20(5)(c) to have chosen English jurisdiction. In *MacSteel Commercial Holdings (Pty) Ltd v Thermasteel* [1996] CLC 1403 Sir Thomas Bingham MR said that the distinction between the choice of English law and a contractual choice of an English forum was a distinction of very major importance, and Millett LJ said that the judge had made a fundamental error in equating choice of law with choice of forum.
62. In my judgment the express choice of English law may, or may not be, a significant factor in the determination of the appropriate forum, depending on the likely issues and other questions normally put in the balance. The factors which are relevant include these: whether there is any substantial difference between English law and the law which would be applied by the foreign court; if there is a difference, whether under its rules of the conflict of laws, the foreign court would apply English law; and the extent to which the dispute turns on questions of law.

VIII Conclusions

63. Since the Defendant had clearly relied on the arbitration clause in the 1994 Agreement prior to the commencement of proceedings, and there is not (and cannot be) any suggestion that it is inapplicable, the order granting permission to serve out in respect of any claim under the 1994 Agreement must be set aside. I will revert to the importance of this aspect below.
64. The only link which the Defendant, a Delaware company, has with New York, at least on the evidence before me, is that its administrative functions are carried out there by its immediate parent company, Atari Inc. There was no evidence on the availability of a New York forum, federal or state, but I shall assume that the New York court has jurisdiction because the Defendant does business there or is treated as being present there.
65. I regard it as significant that in the pre-action correspondence the Defendant's solicitors did not take any point on the jurisdiction of the English court, but limited themselves to reliance on the arbitration clause in the 1994 Agreement, and that the Defendant seeks a stay of these proceedings in so far as they relate to the 1994 Agreement. I consider that the Defendant is playing tactical games. At least one of the two points of principle (and perhaps both) raised in the correspondence (to which I shall revert) arises not only in relation to the 1998 to 2002 Agreements but also in relation to the 1994 Agreement, and the same remedies, on-site inspection for the period prior to January 26, 2001, and production of documents for the period thereafter are common to all the Agreements.
66. Consequently, as a result of the Defendant's choice, there will either be (a) New York proceedings and an English arbitration, or (b) English proceedings and an English arbitration, in each case covering some of the same ground, and claiming the same remedy. The seat of the arbitration will be England (section 3,

Arbitration Act 1996), and it is the English court (and not the New York court) which will have supervisory or supplementary jurisdiction, although the arbitrator would have the power to conduct hearings in New York as a matter of convenience.

67. I consider that there are two reasons which taken separately (and a fortiori taken together) establish that England is the clearly appropriate forum. The first is that the fact that there will be an English arbitration in relation to the 1994 Agreement, covering at least one important point of principle between the parties, which is common to all the Agreements. The second is that the essence of the dispute between the parties comes down to the interpretation of several provisions of five contracts governed by English law, although I accept that that it has not been suggested that there is any material difference between English law and New York law. I also accept that at this stage (notwithstanding what may be some potentially difficult questions of the admissibility of expert evidence, which may turn on New York law as the procedural law if the case were heard in New York) no contentious questions of English law as to the approach to construction of contracts have been raised.
68. It is not simply a matter of counting the contacts. What has to be considered is the likely nature of the dispute. Although what is said in correspondence is not determinative, the court is entitled to take a realistic view of the likely issues, and the correspondence in this case is particularly full.
69. In a letter dated November 1, 2004 to Atari Inc, the Claimant's solicitors, Eversheds, wrote to refer to certain "points of principle" raised by Atari, and to set out the Claimant's claims. The substantive response from Atari's solicitors, Harbottle & Lewis, was made on March 18, 2005. Insofar as they are still relevant to the claims made in the particulars of claim, the following points emerge from the exchange of correspondence between the solicitors.
70. The first point of principle arises in this way. The Defendant's position is that the effect of the clause in the Agreements (with the exception of the 1994 Agreement, which is silent on the point) requiring books and records to be kept for 2 years from the end of the calendar quarter to which they relate, and provision that the Claimant is not entitled to exercise its right of audit more than once per calendar year, taken together mean that the right of audit only relates to the specific 2 year period from the end of the calendar quarter in question. The consequence would be that the Claimant's audit rights would be limited to the 2 years preceding March 31, 2003. The Claimant's position is that the clause merely defines the scope of the Defendant's obligations to retain documentary evidence to support its royalty accounting, and does not fetter the Claimant's right to audit earlier years.
71. The second point of principle is that the Claimant maintains that the Defendant is liable as Hasbro's successor to account fully for sales during the period prior to the Defendant's acquisition of the Hasbro business. The Defendant's position is that in reliance on the fact that the Claimant had not purported to exercise his audit rights for the periods prior to March 2001, no attempts were made by the Defendant either at the time of the change of the ownership or since to secure relevant documents which might be able to assist the Defendant on an audit, and it would be inequitable for the Claimant to seek to go back and try to recover royalties from the Defendant which might have fallen due when it was part of an entirely different group of companies. The Claimant should have exercised his right of audit at the appropriate time but failed to do so. In any event the Defendant does not have the documents necessary for an audit of the period prior to March 2001 to be done. The Defendant does not accept that the initial audit review was requested and undertaken on the basis that the Defendant would be liable for any under accounting by Hasbro as its successor.
72. Of the two points of principle, the first depends on the construction of clause 18 of the 1994 Agreement and clause 15 of the 1998 to 2002 Agreements and in particular whether the Claimant is right in its position that the clause 15 of the 1998 to 2002 Agreements merely defines the scope of the Defendant's obligations to retain documentary evidence to support its accounting, and does not fetter the Claimant's right to audit earlier years.
73. On the second point of principle, the question will turn on the construction of the Agreements (including the 1994 Agreement) and on whether, in reliance on the fact that the Claimant had not purported to exercise his audit rights for the periods prior to March 2001, no attempts were made by the Defendant

either at the time of the change of ownership or since to secure relevant documents. This depends on the same point of construction as the first point of principle, and also on some questions of fact relating to the reasons for, and in reaction to, the Claimant's failure to exercise its audit rights for the periods prior to March 2001. This question arises on all of the Agreements, and will therefore arise in the arbitration.

74. There are 13 specific claims dealt with in the correspondence and also made in the particulars of claim. They arise, it seems, only under the 1998 to 2002 Agreements.
75. I deal first with those claims involving sums over \$100,000, using the same numbering as the particulars of claim.

(2) 4% deduction on US sales : The Claimant complains that since July 1, 2002 the Defendant has made a fixed deduction of 4% from all income on US sales amounting to some \$153,609. According to the Claimant's solicitors this appears to be a result of post-invoice discounts which the Defendant has granted to its larger customers. The Defendant's position is that the definition of "Net Sales Revenues" in each of the Agreements permits the Defendant to deduct customary trade and volume discounts to customers, and that the Defendant is entitled to average those discounts across its range of products rather than apply them to each individual order.

This item depends on the construction of the definition of "Net Sales Revenues" in clause 1(1).

(3) Deduction of advertising costs : The Claimant claims that according to clause 1(1) of the 1998 to 2002 Agreements, when calculating net sales revenue, the Defendant is entitled to deduct 4% for advertising costs from the aggregate actual invoice price of sales, but that the Defendant had deducted sums in excess of the 4% permitted amounting to \$287,018. The Claimant takes the position that the costs are capped at 4% for each specific accounting period. The Defendant's position is that advertising costs should be spread across the life of the product. The Defendant says that the Claimant's suggestion that the 4% cap should apply on a period by period basis is illogical and contrary to industry practice. The vast majority of advertising costs are incurred in the early stages of the release of a product, with the benefit of that advertising being spread across the life of the produce.

This item also depends on the construction of clause 1(1), although the Defendant says that it should be interpreted in accordance with industry practice.

(4) Interest on late release of reserves : This is the largest single claim, amounting to \$2,094,256. The Claimant's position is that under schedule 3 of the 1998 to 2002 Agreements, if the Defendant withheld royalties as reserves against defective products, it was required to hold the money in an interest bearing account, and is entitled to interest at 2% above NatWest base rate. The quantum of the interest is based on the fact that the Agreements are governed by English law and the appropriate interest rate is one which compensates the Claimant for the money being kept out of his hands for this period, rather than the rate at which the Defendant usually invested its short term money. The Defendant's position is that the Agreements are silent on the level of interest and because the obligation was on a US entity there is no reason why that interest bearing account should not be a US account subject to the standard commercial US rates of interest at the time, which would be less than 1%. The Defendant also says that the calculation should be based on the diminishing value of the reserve during the time it was being withheld and not on the total amount of the reserve originally held. In any event the portion of the interest claim relating to the period prior to March 2001 should be discounted from the claim.

This claim also depends on the construction of clause 1(1), although the Defendant says that it should be interpreted in accordance with industry practice.

(6) Royalties/advances not paid on third party income : The Claimant says that by schedule 3 of the 1998 to 2002 Agreements the Defendant was to pay to the Claimant 50% of income received by the Defendant from third party licensee deals. The Claimant says that the Defendant has failed to pay to the Claimant \$139,244, notwithstanding that in January 2004 the Defendant admitted that \$28,523 of this amount was due and owing. The Defendant's solicitors said that the Defendant was still investigating the matter and they were awaiting further instructions.

This claim also depends on the construction of clause 1(1), although the Defendant says that it should be interpreted in accordance with industry practice.

(7) 10% Hasbro deduction : The Claimant claims that he is due \$1,742,663 because the Hasbro royalty statements appear to show a flat 10% deduction from total sales revenues, with a similar deduction in royalties. According to the Claimant's solicitors Aberyc Ltd had concluded that this may have been an allowance against defective products but had been unable to verify this or tell whether it had been correctly deducted, as the Defendant had refused to allow Aberyc Ltd access to accounting documentation for that period. There was no contractual justification for the restriction and the Defendant remained liable. The Defendant's solicitors say that the Defendant was still investigating the basis of the alleged deduction, but the claim was purely speculative. Such documentation as would be required to quantify the claim accurately would still be with Hasbro and the Defendant had no ability to compel Hasbro to produce the documents if indeed it still existed.

This claim also depends on the construction of clause 1(1), although the Defendant says that it should be interpreted in accordance with industry practice.

(13) Wrongful refusal to pay audit fees : The Claimant claims that because of the provision in clause 15 of the 1998 to 2002 Agreements, he is entitled to audit fees if the error uncovered is greater than 5%, and accordingly claims \$218,500. The Defendant's solicitors question the quantum of the costs and deny there has been any under accounting.

This claim depends on whether the error is greater than 5%, and also (it seems) on whether the quantum of the costs claimed is reasonable.

76. The other matters are relatively small.

(1) Interest on late royalty payments : The Claimant claims \$14,825. The Defendant's position is that (a) there is no contractual right to interest in the Agreements; (b) an arbitrary interest rate of 2% above base rate has been adopted; and (c) if the Claimant is entitled to seek interest on late payments, then the Defendant should receive credit for interest paid on prepayments at the same rate. In England these would all be questions for English law, including the application of the Late Payment of Commercial Debts (Interest) Act 1998 (see section 12).

(5) Non-payment of royalties due to missing input. According to the Claimant, the Defendant has failed to include certain gross sale value or sales unit quantities in its royalty calculations, with the result that \$32,523 is due. The Claimant's solicitors said that the amount had been agreed by the Defendant in correspondence with Aberyc Ltd, but the sum had not been paid. The Defendant's solicitors said that the Defendant was still investigating the matter and they were awaiting further instructions.

(8) K-MART royalties not paid : The Claimant claims \$2,363 in respect of receipts by the Defendant in the liquidation of K-MART. The Claimant says that the Defendant had agreed that this amount was due and owing but that it had not been paid. The Defendant's solicitors said that the Defendant was still investigating the matter.

(9) Over-deduction for bad debts : The amount claimed is \$7,339 reflecting the amount the Defendant stated that it had actually recovered from K-MART. The Defendant's solicitors have questioned the basis of the claim.

(10) Withholding tax : The Claimant claims \$27,448 on the basis that the Defendant was not entitled to deduct withholding tax from royalty earnings paid by third party licensees. The Defendant's solicitors say that the Defendant's position is that withholding tax is not deducted by third party licensees, and it is investigating the examples referred to, namely Japan, Korea, Asia Pacific and Hong Kong. If withholding tax has been deducted, clause 6(5) of the 1998 and 1999 Agreements and clause 6(3) of the 2000 and 2002 Agreements provides that if taxes are imposed on any royalties then the amount of such taxes will be deducted, and so the Claimant is not entitled to the sum claimed.

(11) Wrongful deduction from royalties in respect of RollerCoaster Tycoon II : The Claimant claims that the Defendant has wrongfully deducted 3% from all royalties passing to the Defendant from its French

affiliate in the amount of \$61,134, and claims there is no contractual justification for the deduction. The Defendant's solicitors stated that the Defendant was still investigating the matter.

(12) Wrongful of payment of royalties in US dollars : The Claimant claims an exchange loss of \$42,116 from royalty payments made in US dollars, notwithstanding that according to schedule 3 the Defendant is required to pay in sterling. The Defendant's position is that over the lifetime of the Agreement, the Defendant had always accounted in dollars and the Agreement has been varied so as to admit accounting in dollars, or the Claimant is estopped from objecting to this.

77. Of these smaller matters item (1) depends on construction. The Defendant has not yet identified an issue in relation to items (5), (8), (9) and (11). Item (10) depends on whether withholding tax has been deducted by third party licensees in Japan, Korea, Asia Pacific and Hong Kong, and further, as a matter of construction, clause 6(5) of the 1998 and 1999 Agreements and clause 6(3) of the 2000 and 2002 Agreements allows the amount of such taxes to be deducted. Item (12) depends on whether the Agreements have been varied by conduct so as to admit accounting in dollars. This may require a limited amount of oral evidence. The claim is very small.
78. I do not accept, therefore, that the case is a largely fact-based dispute with little (if any) law involved, nor that the resolution of the dispute will turn in large part on accountancy evidence as to what sales have been made. It is true that the Claimant's claim includes claims for specific performance of the Agreements to allow the Claimant to conduct an audit of the Defendant's royalty accounting records for the period January 1999 to January 2001, and to afford the Claimant disclosure of the documents required to conduct an audit of the Defendant's royalty accounting records for the period after January 2001. But these claims go to remedy, and stem largely from the differing approach of the parties to important questions of the construction of the relevant provisions of the Agreements. I have taken into account the fact that, if an order is made in these proceedings it would be for inspection of, or production of, documents which are mainly in New York. But that is not a matter which weighs heavily in the balance at this stage. The court often orders acts to be done abroad, and it is not to be presumed that the Defendant will fail to comply or that an issue will arise as to whether it has complied with any order.
79. The Defendant has exaggerated the New York connections of the evidence. Even on the assumption that expert evidence will be required (or admissible) on the points which separate the parties (which is by no means certain), there is no reason why it cannot be given in England by international experts. There will be little need for factual witness evidence at the trial stage, except to a limited extent in relation to the second point of principle. So far as documents are concerned, Mr Abramson of Harbottle & Lewis accepts that the accounting documents are in computer form and can be put on disk, although he argues that the accounting exercise would be more cumbersome if done in England. But I am not persuaded that the detailed accounting documents will be relevant at any stage prior to final judgment and order. There is no claim that records have not been properly kept. If the Claimant fails on his claim that the Defendant must make the Hasbro documents available, that will be the end of that aspect of the matter. If he succeeds, and the Defendant has a contractual right as against Hasbro to the documents, then the Claimant may obtain the order for specific performance which it seeks. If the Defendant does not have such a contractual right, then some difficult questions as to the consequences for the Defendant might arise, but they will not depend on the location, or content, of the documents. If an account were ordered to be taken by the English court, and the Hasbro documents were relevant and not produced, then they could be obtained by letters rogatory, or by an order in New York under section 1782 of the United States Code in aid of the English proceedings.
80. I am satisfied that the Claimant has established that England is the clearly appropriate forum. Except, therefore, for the claims in respect of the 1994 Agreement, I will not set aside the Master's order.

A Hunter for the Claimant instructed by Eversheds LLP
P Lowenstein for the Defendant instructed by Harbottle & Lewis