



BL O/154/06

27 June 2006

## PATENTS ACT 1977

BETWEEN

ASI Solutions PLC

Claimant

and

Nu-Phalt Limited

Defendant

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### PROCEEDINGS

References under sections 13 and 37 and application under section 72 of the Patents Act 1977 in respect of patent number GB 2344369

HEARING OFFICER

Peter Back

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### DECISION

- 1 This decision addresses the issue of whether or not it is appropriate in this particular case to depart from the comptroller's published scale in making an award of costs.
- History of the proceedings**
- 2 The nature of the issue that I need to decide is such that it is necessary to set out in some detail the history of these proceedings.
- 3 Patent application number GB 9824226.6 was filed on 6 November 1998 by Nupro Limited (Nupro) naming Paul Hutchinson as the sole inventor. It was published on 7 June 2000 and granted on 1 October 2002 as GB 2344369 ("the patent"). The patent relates to a heater for use in repairing asphalt surfaces.
- 4 References under sections 13 and 37 were filed by the claimant on 3 March 2003 seeking an order that Mr Hutchinson be replaced as inventor by Keith Rogers and Walter Wibberley and that Asphalt Systems International Limited - subsequently renamed ASI Solutions PLC (ASI) - be registered as the proprietor of the patent to the exclusion of any other person. These references were opposed by Nupro.

- 5 The usual evidence rounds followed relatively smoothly and the matter was scheduled to be heard before the comptroller on 5 July 2004.
- 6 However the Office received a letter dated 29 June 2004 from Nu-Phalt Limited (Nu-Phalt), stating that Nupro was assigning the patent to Nu-Phalt. The letter went on to state that Nu-Phalt intended to apply to be made a party to the proceedings, to seek permission to present further evidence, and to request that the hearing be adjourned to allow this.
- 7 Subsequently the request for adjournment was supported by Nupro, and it was made clear that Nu-Phalt was a new company formed specifically to take forward these proceedings, Nupro not being in a financial position to do so. The parties agreed that the hearing should be adjourned subject to certain conditions. These included the following:
- "Nu-Phalt will pay the wasted costs of ASI on or before 15th July 2004, such costs being all those of and associated with the adjournment of the substantive hearing and the application made by Nupro for such adjournment".
- 8 On 21 July 2004, ASI initiated proceedings under section 72 seeking revocation of the patent; and following a case management conference held on 23 July 2004, the actions under sections 13, 37 and 72 were consolidated.
- 9 Further evidence rounds followed in respect of the new reference under section 72 again with only the occasional short extension of time required. Both sides were able to agree to a date for hearing the consolidated actions in February 2006.
- 10 However the issue of the wasted costs arising from the adjournment of the earlier arranged hearing was not able to be resolved. Considerable correspondence was exchanged between the representatives of both sides with a view to determining the scope of the particular provision mentioned in paragraph 7 above and more particular the quantum of any wasted costs.
- 11 In the absence of any agreement on the main issues relating to the wasted costs, a hearing was arranged for 22 November 2005. A related dispute about the admissibility of some "without prejudice save as to costs" correspondence was addressed in a preliminary decision<sup>1</sup> by another hearing officer prior to the hearing. In the event the parties were able to settle their dispute on this particular matter and consequently the proposed hearing was cancelled.
- 12 Preparations for the main hearing on the substantive issues proceeded as expected with both sides submitting skeleton arguments in advance of the hearing. The skeleton arguments for both sides maintained their respective positions. A supplementary note was submitted by Nu-Phalt on the morning of the first day of the hearing but before the hearing had commenced. This note questioned whether ASI had in fact identified a clear breach of any rule of law

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1. BL O/292/05

in their entitlement claim, Nu-Phalt arguing that this was a necessary requirement in any such disputes following the decision in *Markem*<sup>2</sup>

- 13 The hearing commenced on the 13 February 2006 with ASI represented by Miss Denise McFarland instructed by Messrs. David Keltie Associates and Nu-Phalt by Mr Daniel Alexander QC instructed by Messrs Bawden & Associates. Both sides made opening statements and then Mr Alexander began cross examination of ASI's witnesses. The cross examination continued into the second day of the hearing. Midway through the second day Mr Alexander informed me that his client no longer wished to contest the action for revocation. Following a short adjournment both sides confirmed that they had agreed on a suitable consent order and that there was no longer any reason to continue with the hearing.
- 14 A copy of the consent order signed by the representatives of both sides was subsequently approved by me on 15 February 2006. The consent order ordered the revocation of the patent but made no order in respect of the unconcluded entitlement proceedings. The consent order also included the following provision:

“Costs shall be paid by the Respondent to the Applicant, such costs to be in a sum as may be agreed between the parties, or in default of agreement as ordered by the Patent Officer Hearing Officer Mr Back following the submission by the parties of submissions in writing, provided that such submissions are made and served on or before 4pm on 7<sup>th</sup> March 2006”.
- 15 Given the sometimes acrimonious dispute between the parties on the issue of wasted costs it was perhaps not surprising that the parties were unable to agree on the costs referred to in the consent order. Consequently submissions were received by the Patent Office from both sides on the 7 March 2006.
- 16 ASI in its submission put forward a number of reasons why in making an award I should depart from the comptroller's published scale. The submission also included a detailed breakdown of the costs it was claiming. The submission in an unnumbered paragraph immediately following paragraph 16 also offered to provide “any further information required to assist the Comptroller in reaching a decision”. The submission also noted that if a skeleton bill of costs by Nu-Phalt was submitted (ASI had at that time not seen the submission from the other side) then “we reserve our position with regard to making any detailed submission on that document in due course”.
- 17 In the event Nu-Phalt did not provide a breakdown of its own costs. Rather its submission put forward arguments why it was not appropriate for an award off the published scale to be made. The submission went on to note that “In the unlikely event that the Patent Office considers that an award of off the scale costs would be appropriate it would be necessary to address separately the

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2. *Markem Corp v Zipher Limited* [2005] RPC 761

question of the level of costs.” The submission which is referred to as an “initial submission” further noted that “Of course we reserve the right to make any further submissions should the need arise and, (although we hope it will not be necessary) to request a short hearing to deal with the matter if it cannot be agreed”.

- 18 In light of these observations, and mindful of the need to do justice and also avoid if possible further expenditure, the Patent Office wrote to both sides on 31 March 2006 outlining the course it intended to pursue. This was that:

“The Hearing Officer will on the basis of the material already filed decide whether to depart from the scale of costs set out in the Patents Hearing Manual.

If he decides to make an award according to the scale then he will do so in his decision.

If however he decides to depart from the scale then he will defer determining the quantum of any such award until after both sides have been given a further opportunity to make submissions or to be heard if they so choose. It is to be hoped that a further hearing in this respect will not be necessary.”

- 19 The letter went on to invite the parties to inform the Office no later than 14 April 2006 if they were not content with the approach suggested.
- 20 ASI responded in a letter dated 7 April 2006 accepting the proposal by the Office whilst at the same time expressing some surprise and concern that a further possible opportunity for submissions was being offered.
- 21 Nu-Phalt responded in a letter dated 13 April 2006 also accepting the Office’s proposal. The letter however went on to put forward further argument why the comptroller should not depart from the published scale when making an award of costs. This letter from Nu-Phalt unsurprisingly prompted a response from ASI dated 3 May 2006 which argued that the further arguments put forward by Nu-Phalt should be “ignored and rejected” since they were submitted after 31 March. In this letter ASI also put forward its own counter arguments to the latest arguments from Nu-Phalt presumably in case I decided to consider them.
- 22 The proposal set out in the Office’s letter of 31 March made clear that I would decide whether or not to depart from the scale on the basis of the material already filed; in other words on the basis of material filed by 31 March. Both sides indicated their agreement to this approach whilst at the same time both have sought to add to that material, albeit that ASI’s arguments were in response to those of Nu-Phalt. Whilst it might be argued that ASI has had an opportunity to answer the further arguments of Nu-Phalt and therefore I should consider these, I do not believe that would be in anyway fair to ASI. Instead it seems clear that the right thing for me to do is to simply ignore any arguments put forward after 31 March 2006. That is what I will do.

## **Scope of the consent order**

- 23 The first thing I need to consider is whether the consent order signed by both parties and approved by me imposes any restrictions on me regarding costs. The only argument I received on this point was from ASI. Its position was quite simply that the consent order does not limit me to awarding costs according to the scale. That I believe is right. But equally I do not believe the consent order forces me any more in the opposite direction. Rather it simply leaves it to me to decide. So on what basis should I make my decision?

## **Principles to be applied**

- 24 Section 107(1) of the Patents Act 1977 gives the comptroller the power to award costs in proceedings before him. As Anthony Watson QC, sitting as a Deputy Judge, confirmed in *Rizla Ltd's Application*<sup>3</sup>, the discretion conferred on the comptroller in this respect is very wide, with no fetter other than the overriding one that he must act judicially.
- 25 It is however long-established practice for costs awarded in proceedings before the comptroller to be guided by a standard published scale. The scale costs are not intended to compensate parties for the expense to which they may have been put but merely represent a contribution to that expense. This policy reflects the fact that the comptroller ought to be a low cost tribunal for litigants, and builds in a degree of predictability as to how much proceedings before the comptroller, if conscientiously handled by the party, may cost them. The practice of the High Court and the provisions of the Civil Procedure Rules do not therefore provide any general guidance for the assessment of costs before the comptroller
- 26 However as ASI was keen to point out, the scale is not mandatory. The hearing officer has the power to award costs off the scale where the circumstances warrant it. This was not disputed by Nu-Phalt.
- 27 So what are the circumstances that justify an award off the scale? Again there does not seem to be any dispute between the parties on this. Both sides referred me to the guidance provided in paragraphs 5.47 to 5.51 of the Patent Office Hearings Manual<sup>4</sup>. The most relevant is perhaps paragraph 5.47 which reads:

“The scale is not mandatory. The hearing officer has the power to award costs off the scale where the circumstances warrant it. In extreme cases, costs may even be increased to the extent of approaching full compensation, or be reduced to zero. This flexibility should be used to deal proportionately with, for example:

- delaying tactics, failure without good cause to meet a deadline, or other unreasonable behaviour, particularly where the other side is put to disproportionate expense;

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<sup>3</sup> *Rizla Ltd's Application* [1993] RPC 365

<sup>4</sup> Patents Hearing Manual, <http://www.patent.gov.uk/patent/reference/hearing/index.htm>

- a claim launched without a genuine belief that there is an issue to be tried;
- seeking an amendment to a statement of case which, if granted, would cause the other side to have to amend its statement or would lead to the filing of further evidence, if the amendment had clearly been avoidable;
- costs associated with evidence filed in respect of grounds which are not pursued at the substantive hearing (though a party should not be deterred from dropping an issue which, in the light of the evidence filed by the other side, it now realises it cannot win);
- unreasonable rejection by the party that eventually loses of efforts to settle the dispute before the proceedings were launched or a hearing held;
- unreasonable refusal by that party to attempt alternative dispute resolution;
- unnotified failure to attend a hearing;
- breaches of rules;

and the increase or reduction should be commensurate with the extra expenditure incurred by the other side as the result of such behaviour. It should however be emphasised that merely because a party has lost or has withdrawn from the proceedings does not of itself mean that their behaviour in fighting the case was unreasonable: it only becomes unreasonable if it was fought in a way that incurred unnecessary costs.”

28 ASI also referred me to Tribunal Practice Notice TPN 2/2000 which includes similar wording to that in the Patent Hearings Manual. ASI also directed me to the recent decision in *Statoil ASA v University of Southampton*<sup>5</sup> where the hearing officer stated that :

“It is though right to depart from the scale if the behaviour of a party was such that it unreasonably caused the other side to incur costs”.

29 As I have indicated there is no dispute that the comptroller is able to depart from the scale or that the circumstances set out in the references referred to above would justify such a departure. However not surprisingly there is a disagreement about whether the behaviour of Nu-Phalt in this case was unreasonable and justifying of an award off the scale.

### **Arguments**

30 In its submission ASI identified four reasons why it believes the behaviour of Nu-Phalt caused it to incur unreasonable additional cost. I will consider each in

turn and then decide whether individually or in combination they justify a departure from the scale.

### **1. Maintaining a case that was bound to fail**

31 ASI argues that from the evidence filed by them, Nu-Phalt must have known that it was not entitled to the patent and that the patent should be revoked. ASI goes on to suggest that the cross examination of ASI's witnesses at the hearing did not reveal any additional evidence that would prejudice Nu-Phalt's case therefore the reason why Nu-Phalt conceded revocation must have been evident before the hearing.

32 So was Nu-Phalt's case hopeless before the hearing? I do not believe it was. The main plank of the revocation case brought by ASI was that the invention was disclosed to the public prior to the application being filed. Almost invariably with prior public disclosures questions will arise as to what was actually disclosed and to whom. This case seemed no different in that respect. On entitlement Nu-Phalt's case also did not seem hopeless. In the absence of any request to strike out the defence on either revocation or entitlement, I can only conclude that this was a view shared by ASI.

33 If their case was not hopeless going into the hearing then what happened at the hearing to persuade them otherwise? The simple answer is that I do not know nor I suspect do ASI. That Nu-Phalt has not explained why it capitulated when it did is not relevant. On this I find some support from the following comments of Mr Watson QC in *Rizla* at page 376:

“It is of course not normal in the High Court to give reasons for abandoning an action and in general it is better that this takes place than parties persist with litigation which is doomed to failure. I do not believe that the appellant's failure to give reasons for his withdrawal, taken on its own or in the general context of the facts of the case, in any significant way supports the superintending examiner's conclusion that the appellant was acting unreasonably”.

34 We do not know what Nu-Phalt gained from the cross-examination and the arguments put forward by ASI's counsel. Even if there was no obvious “killer blow” from any of the witnesses, and I did not detect one, there might still have been enough for Nu-Phalt to conclude that its position was not sustainable.

35 In *Statoil*, where coincidentally Mr Alexander also represented one of the parties, the hearing officer made the following observation:

“It is important to distinguish between the fact that someone has lost a case and the fact that their behaviour may have been an abuse of process or unreasonable. If merely losing a case allows the winner to say that you behaved badly, then the scale becomes meaningless because there will be an off-scale award every time. I think there is quite a lot of force in many of Mr. Alexander's arguments, particularly on the legal complexity and the fact that the University of Southampton did contribute to the specification. But, given the concessions his witnesses

made, arguing that Statoil had made no contribution and had no entitlement, was, in my view, never a tenable position. The failure to concede any scintilla of entitlement or inventorship in my view clearly caused Statoil to incur extra costs that they should not have had to incur and would not have incurred if the University had behaved more reasonably in their conduct of this case. I am, therefore, going to compensate Statoil for what I perceive as those extra costs by departing from the scale.”

- 36 In that case the claimant’s case had been seriously undermined by its own witnesses and it was its failure to respond accordingly to this that the hearing officer thought unreasonable. Nothing like that happened in this case. In fact ASI’s argument is that the witnesses added nothing new and therefore Nu-Phalt’s reason for conceding on revocation must have been known to it beforehand. As I have said, I do not believe Nu-Phalt’s case was hopeless going into the hearing nor, on the basis of the material before me, do I think it acted unreasonably in subsequently dropping its defence on revocation.

## **2. Abuse of process**

- 37 ASI also claims that the behaviour of Nu-Phalt up to and including the hearing abused the process of the comptroller. It bases this claim essentially on the nature of the cross examination of ASI’s witnesses which it believes was aimed at obtaining information to help Nu-Phalt in its separate High Court revocation action against two patents held by ASI. It argues that much of the questioning of the witnesses by Mr Alexander was aimed at the composition of the rejuvenating solution used in the asphalt treatment process, which in its view was clearly not relevant to the invention in the patent at issue. This argument is it says backed up by the timing of Nu-Phalt’s capitulation after the majority of ASI’s witnesses had been cross-examined but before cross-examination of its own witnesses.
- 38 I think the thrust of the argument here is not that the hearing itself was prolonged unnecessarily by these particular questions but rather that the nature of the questioning shows that Nu-Phalt continued to oppose the various actions before the comptroller merely in order to have the opportunity to obtain useful information for its action in the High Court.
- 39 Whilst Mr Alexander did indeed direct questions to the witnesses on the rejuvenating process in general and on the rejuvenating solution in particular, I do not necessarily consider his questioning to be totally detached from the issue in hand. I would add in support that I do not recall Miss McFarland, who has considerable experience of IP disputes, objecting either frequently or indeed at any time to the relevance of Mr Alexander’s questioning. I am certainly not persuaded, on the basis of the information before me, that the continuation of the dispute before the comptroller was simply a rouse by Nu-Phalt to obtain information for use elsewhere.

## **3. Nu-Phalt’s general behaviour caused unnecessary expense**

- 40 ASI argues that it has been put to continuous and unreasonable expense and inconvenience by Nu-Phalt. It cites by way of example the adjournment of the



original hearing set for 5 July 2004. This it argues was simply a delaying tactic to enable the assignment between Nupro and Nu-Phalt to be completed and to allow a further opportunity to file additional evidence. ASI refers to the case of *Rohm & Haas's Application*<sup>6</sup> where the hearing officer stated that

“I would only admit the evidence at this late stage if it were both relevant and decisive, in the sense that if it were admitted and remained uncontradicted, it would tip the balance in favour of the opponents”.

- 41 I must confess I have some difficulty understanding this line of argument. The decision to adjourn the original hearing which both sides agreed to, albeit with obvious reservations on the part of ASI, undoubtedly gave rise to unnecessary expenditure (wasted costs). The question of those wasted costs however was resolved by a settlement between the parties last November. In the absence of any indication to the contrary I must consider that that settlement dealt with all the wasted costs "of and associated with the adjournment of the substantive hearing and the application made by Nupro for such adjournment". Hence these cannot be factors that I take into account now.
- 42 Did adjourning that hearing give Nu-Phalt another opportunity to file evidence? The answer must be yes. Indeed this was one of the reasons that it requested the adjournment. Whether any additional evidence would have been admitted is possibly something that I would have needed to decide and that may have required consideration of the type of issues raised in *Rohm & Haas's Application*. If any further evidence had put ASI to additional expense then I might also have needed to consider an appropriate order for costs. However in the event none of that was necessary because, less than a month after the adjourned hearing, ASI launched a fresh action under section 72. This new action included a claim that the patent was invalid because it was granted to the wrong person. In doing this ASI allowed fresh evidence on the question of entitlement to be filed.
- 43 The delay in registering the transfer of entitlement to Nu-Phalt also did not affect the progress of the proceedings since whilst this was happening evidence was being submitted by both sides in relation to the action under section 72.
- 44 Consequently I can not see how any of this can help ASI with its argument that it has been put to continuous and unreasonable expense and inconvenience by Nu-Phalt.

#### **4. Failure to Settle**

- 45 In its submission on costs ASI also refers to settlement discussions held, on a without prejudice save as to costs basis, in the days leading up to the substantive hearing in February 2006. ASI suggests that Nu-Phalt offered concessions that it had previously refused to make and that this brought the two sides to a position that was the “closest achieved” throughout the various discussions that they had had. ASI argues further that “all of the costs claimed

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<sup>6</sup> *Rohm & Haas's Application* [1966] FSR 403

may have been avoided if Nu-Phalt had admitted this position from the outset". The submission concludes with "it is noteworthy that at no time during these discussions did Nu-Phalt offer to submit to revocation of the patent by consent".

- 46 I should perhaps say first that I see no problem with ASI referring to earlier settlement discussions held on a "without prejudice save as to costs" basis now that the substantive issues have been dealt with. The purpose of the qualification "save as to costs" is clearly to enable details of such discussions to be admitted when the question of costs is being considered; which is what I am doing here.
- 47 I also accept as I indicated in paragraph 27 above, that an unreasonable rejection of an offer to settle by a party that eventually loses may be justification for departing from the published scale. However, the simple fact is that I do not know whether Nu-Phalt have unreasonably rejected an offer to settle. Rather all ASI has said in its submission is that Nu-Phalt made new concessions immediately prior to the hearing and that if Nu-Phalt had adopted "this position", which I understand to mean including these new concessions, from the start then all of the costs would have been avoided. Again I fail to see how this could have been given that "this position" adopted by Nu-Phalt did not bring about a settlement immediately prior to the substantive hearing. I can only assume that it was because ASI wanted more than Nu-Phalt was offering hence Nu-Phalt's rejection of ASI's final offer. In the absence of any further detail I am unable to say whether Nu-Phalt has or has not acted unreasonably in the settlement negotiations.
- 48 That Nu-Phalt at no time offered to submit to revocation of the patent during any of the settlement negotiations is, for the reasons that I have already given also not necessarily an indication that it has behaved unreasonably.

### **Conclusion**

- 49 I have carefully considered each of the reasons put forward by ASI why I should make an award off the comptroller's case. I have however been unable to conclude on the basis of the material before me that Nu-Phalt's behaviour has been unreasonable so as to cause ASI to incur additional costs. I therefore decline to make an award above the published scale.

### **Award**

- 50 I have therefore decided to award the claimant costs on the normal published scale as a contribution to their expenses up to and including the adjourned final hearing. The main substantive hearing was scheduled to last 7 days which is long for a dispute before the Comptroller. The number of witnesses called for cross examination was also consistent with this being a large case. On that basis I believe that an award towards the upper end of the published scale is appropriate. I therefore award ASI £5750. This sum should be paid by the defendant within 7 days of the expiry of the appeal period below. Payment will be suspended in the event of an appeal.

## **Appeal**

- 51 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

Peter Back  
Divisional Director acting for the Comptroller