PATENTS ACT 1977

IN THE MATTER OF a reference under section 8(1) by KFL (Floor Services) Limited in respect of Application No GB 0204306.5 in the name of Philip McGarry and Brian John George Lawson

PRELIMINARY DECISION

Introduction

1 Application No GB 0204306.5 entitled "Panel-marking tool and method" was filed in the name of the defendants, Philip McGarry and Brian John George Lawson, on 23 February 2002. Preliminary examination and search have been carried out, but the application has not yet been published. The above reference under section 8(1) was filed on 24 October 2002 with a statement of case, essentially alleging that the application should proceed in the name of KFL (Floor Services) Limited ("KFL"). The defendants have filed a counter-statement and both parties have filed their evidence in chief.

2 However in a letter dated 21 March 2003, the defendants raised with the comptroller the questions of whether the claimants should be required to give security for costs on the grounds that their accounts showed their liabilities to be considerably in excess of their assets, and whether the defendants were entitled to a departure from the comptroller's normal scale of costs in relation to changes made during the proceedings in the identity of the referrer.

3 The latter point arose because there was initially some confusion about whether the reference should have been made by KFL or by one of its co-directors Christine Kent: this resulted in the name of the referrer being changed at the instigation of the Office from KFL to Christine Kent and then back again to KFL. (It is common ground that, at least up to 15 October 2002, Mrs Kent and Mr Lawson were the directors and only salaried employees of KFL.) The parties have agreed that costs in respect of this should be a matter for determination at the substantive hearing.

4 However, the parties have not been able to agree on the provision of security for costs. They do not wish to attend a hearing, and are content for the comptroller to decide the matter on the papers on file. Before I do so it will be helpful to outline briefly the history of the matter.

5 From the earlier correspondence between the parties that accompanied the defendants' letter of 21 March 2003, it is clear that the questions of entitlement to make the reference under section 8 and the provision of security have been a bone of contention between the parties ever since the reference was contemplated. In a letter dated 30 April 2003 the solicitors acting for the claimants stated that Mrs Kent was prepared to deposit £3500 by way of security which they would undertake to hold to the order of the comptroller. However, as is clear from subsequent correspondence, the parties, whilst not disputing the

amount of security, were unable to come to agreement as to whether this constituted a sufficient undertaking on the part of the claimants.

6 This continuing dispute also impacted on the period for the defendants to file their evidence, which was due in the normal course of events by 5 June 2003. The defendants at first sought to delay the setting of a period until the issue of security had been resolved, but eventually filed their evidence on 19 June 2003, that date being a provisional deadline which the Office had proposed but had not yet confirmed. The claimants in a letter dated 9 June 2003 confirming their position on security for costs had reluctantly accepted that deadline but made clear that they wanted the matter drawn to a close.

7 As pointed out by the defendants, two witness statements filed on 19 June 2003 contained fax signatures. Their letter foreshadowed the original statements, which were filed on 2 July 2003. The claimants have been asked to file any evidence in reply by 12 August 2003. In the absence of any further comments from the parties, I do not therefore think I need to concern myself with the evidence periods in this decision.

Analysis and consequent findings

8 In the proceedings the address of both KFL and Mrs Kent is given as 38 High Road, North Weald, Essex, and this is not disputed. Having considered the papers on file, I therefore came to the preliminary view that the comptroller had no vires to order security for costs, since the proceedings did not fall within section 107(4) of the Act, which states (emphasis added):

> "If any of the following persons, that is to say -
>
> (a) <u>any person by whom a reference is made to the comptroller under section 8, 12 or 37 above</u>;
>
> (b) any person by whom an application is made to the comptroller for the revocation of a patent;
>
> (c) any person by whom notice of opposition is given to the comptroller under section 27(5), 29(2), 47(6) or 52(1) above, or section 117(2) below;
>
> <u>neither resides nor carries on business in the United Kingdom</u>, the comptroller may require him to give security for the costs or expenses of the proceedings and in default of such security being given may treat the reference, application or notice as abandoned."

9 Since this point did not previously appear to have been considered, I gave the parties an opportunity to comment on it, drawing attention to the commentary in paragraphs 107.10-11 of the "Manual of Patent Practice" and paragraphs 2.90-2.93 of the "Hearing Officers' Manual" published by the Patent Office. For the purposes of this decision it will suffice to quote paragraph 2.93 of the latter, which, following on from a discussions of the powers available to the comptroller under section 107(4), states:

> "The comptroller does not appear to have any other powers to require security for costs. Thus in *John Pemberton v Monk Construction Ltd BL O/94/97* the hearing officer declined to require security from a claimant who was a UK resident but who was alleged to have insufficient funds to meet the other side's likely legal costs. Similarly, in *Cerise Innovation Technology Ltd v Melih*

> *Abdulhayoglu [2000] RPC 18*[1] the hearing officer ruled that section 726(1) of the Companies Act 1985, which allows a "court" to require security if the claimant is a limited company with insufficient funds, did not apply to the comptroller."

10 In letters dated 18 and 19 June 2003 the defendants alleged that section 107(4) does not constitute an exhaustive list of the circumstances in which the comptroller may order security, and that *Abdulhayoglu* was wrongly decided. The claimants have made no reply.

11 The decision of the hearing officer in *Abdulhayoglu* is of course not binding on me. However, although the hearing officer only had the benefit of arguments from one party in reaching his decision, that decision carefully considers all those arguments and is fully reasoned. I therefore believe that I should depart from it only if I am clearly satisfied that it is wrong or is inappropriate in the particular circumstances before me - especially since I also am faced with arguments from one party only.

12 Section 726(1) of the Companies Act 1985 reads:

> "Where in England and Wales a limited company is plaintiff in an action or other legal proceeding, the court having jurisdiction in the matter may, if it appears by credible testimony that there is reason to believe that the company will be unable to pay the defendant's costs if successful in his defence, require sufficient security to be given for those costs, and may stay all proceedings until the security is given."

The hearing officer accepted that the Comptroller, clearly being a tribunal which exercised jurisdiction over persons by reason of the sanction of the law, was a "court" in the sense explained by Halsbury's Laws (making reference to 4th edition, vol.10 para. 701). However, he considered that Halsbury was not a binding authority on the meanings of words in legislation, and that it was to legislation and case law that he should look for this. On this basis the hearing officer was is in no doubt that the proceedings before the comptroller were "legal proceedings", but gained no help as to the interpretation of "court" in section 726.

13 The hearing officer accordingly concluded as follows:

> "Using the basic principles of statutory interpretation, would construing the term either way - *i.e.* as either including or excluding the Comptroller - lead to an absurd result that cannot reasonably be supposed to have been the intention of Parliament? At first glance, the mischief against which section 726 is directed is a general one. If an impecunious limited company launches legal proceedings, the risk that the defendant might end up out of pocket even if he wins does not depend on the nature of the proceedings. Thus arguably there is no obvious reason for Parliament to have intended covering some proceedings and not others. However, I feel that argument is too simplistic. Proceedings in a "proper" court such as the High Court or even the County Courts can be very expensive. Proceedings before the Comptroller, on the other hand, are supposed to be relatively cheap, and the same probably applies to other similar tribunals. Thus the potential mischief is much smaller, and in view of this I do not feel that one can conclude that Parliament cannot possibly have intended to exclude tribunals such as the Comptroller from section 726. On the contrary, I think one could construe the absence of a "without prejudice" clause in the Patents Act, even though one is present in the Rules of the Supreme Court, as implying that Parliament may quite deliberately have intended to restrict the circumstances in which the Comptroller could require security for costs.";

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[1] Reported as *Abdulhayoglu's Application*

but the defendants take issue with this reasoning on two grounds, first, as to his reliance on the lack of a "without prejudice" provision in the Patents Act, and, second, as to his view of the mischief underlying the enactment of section 726. I will deal with these grounds in turn.

14 The "without prejudice" provision to which the hearing officer referred was the provision in the Rules of the Supreme Court ("RSC") Order 23, rule 3, which was then in force, whereby the Order was without prejudice to the provisions of any other enactment empowering the court to require security. In their letter of 19 June 2003 the defendants argue in relation to the regime under the RSC:

> "But that regime has always provided, and still provides, for the provision of security by an impecunious company or body of any kind, and not just limited companies under the Companies Act. See CPR 25.13(2)(c). The overlap between that CPR provision and section 726 almost requires a saving provision. There is no overlap at all between sections 107 (of the Patents Act) and 726, and hence no need at all for a saving provision."

15 Rule 25.13(2) of the Civil Procedure Rules 1998 ("CPR") lays down a number of conditions, one or more of which must apply before the court can make an order for security if otherwise satisfied, having regard to the circumstances of the case, that it is just to do so, and condition (c) is that:

> "the claimant is a company or other body (whether incorporated inside or outside Great Britain) and there is reason to believe that it will be unable to pay the defendant's costs if ordered to do so;".

However, a provision of this nature would seem to be a relatively recent introduction. As explained in "Civil Procedure", that part of rule 25 concerning security for costs was added to the CPR, largely replacing RSC Order 23, by the Civil Procedure (Amendment) Rules 2000 (SI 2000 No 221) only with effect from 2 May 2000. As noted by the hearing officer in *Pemberton v Monk Construction* (see the passage from the "Hearing Officers' Manual" quoted above), there was no corresponding provision in RSC Order 23. A further difference is that rule 25 does not in fact contain a "without prejudice" or "saving" provision corresponding to that in rule 3 of Order 23.

16 I therefore consider the defendants' argument to rest on insecure foundations, and I cannot in any case see how it helps them. As I read it, the hearing officer was merely drawing a conclusion from the *absence* of a particular provision in the Patents Act. Whether or not there is a *need* for such a provision in relation to section 726 seems to me to be irrelevant to the question which I have to decide.

17 The defendants further submit that the mischief underlying section 726 is not that on which the hearing officer founded his conclusions, and they make the point that many court actions are very much less expensive than Office proceedings, yet the provisions for security in the Civil Procedure Rules still apply. In their view the true mischief is "that those standing behind an insolvent company can, in the absence of security, litigate in the name of the company and obtain a benefit if the action is won, without having to take on the ordinary risk in litigation, which is to pay the costs of their opponents if they lose."

18 Again, I do not think that this helps the defendants. The mischief that they propound seems to me to be another general one which takes no account of the point about the

relative costs of court and tribunal proceedings which was made by the hearing officer. As to the reasons put forward by the defendants for doubting his conclusion on that point, no doubt there are *particular* court actions which are cheaper than Office proceedings, but I do not think that this negates the hearing officer's conclusion about the *general* relative levels of costs in the two fora.

19 To my mind, therefore, the defendants have not made out any case for me to depart from the reasoning of the hearing officer in *Abdulhayoglu*, and I do not therefore consider that I have jurisdiction to make any order for security under section 726.

20 The defendants did not submit any arguments in respect of the earlier decision of the comptroller in *Pemberton v Monk Construction*. In that case, the hearing officer stated, in relation to section 107(4)

> "The *a contrario* rule of interpretation leads me to the conclusion that the Comptroller has no discretion to order security for costs except under the conditions laid down in the statute. However, I should consider the possibility that there is some residual power to make such an order. In doing so I shall refer briefly to the Rules of the Supreme Court. It is the Comptroller's practice to follow these where there is no specific Patents Rule in point.",

but, as mentioned above, found nothing in the RSC which would allow security to be ordered.

21 As I have mentioned, there is now provision under the CPR for security to be ordered against a company or other body having insufficient funds. Nevertheless, I do not think it follows that I should order security simply because there has been a change. As I read it, the hearing officer made no firm finding what the position might be if he was wrong in his primary conclusion that section 107(4) should be interpreted *a contrario*. Even if I am wrong his decision is not binding on me, and I do not think it appropriate, particularly in the absence of full argument on the point, for me to extend the relatively limited powers under section 107(4) into areas not clearly contemplated by Parliament and where established practice provides no guidance. I am mindful that, as was pointed out in *Abdulhayoglu*, there never appears to have been any case where the comptroller has ordered security for costs in situations outside the ambit of section 107(4) and the corresponding provision under the Patents Act 1949.

22 Accordingly, I find that there is no jurisdiction for the comptroller to order security for costs on the grounds put forward by the defendants. I do not therefore need to consider whether these grounds are in fact established.

Costs

23 It is now the practice of the comptroller to award costs at any appropriate stage in the proceedings, and I consider that it is appropriate to do so in respect of my finding above in this preliminary matter. However, bearing in mind that costs in accordance with the comptroller's standard scale (published in Tribunal Practice Notice 2/2000 at [2000] RPC 598) are no more than a contribution to expenses, I do not think that the award should be more than a token amount, none of the correspondence from the claimants actually having addressed the point on which my decision has turned, namely whether the comptroller actually has jurisdiction to make an order for security for costs.

24 I should say that, with hindsight, it was perhaps unfortunate that the Office did not consider this when the defendants first raised the matter. However, the Office appears to have taken the view, not without some justification, that the parties were near to agreement at that time, and even if the Office was wrong on that I do not think it should excuse the defendants.

25 I therefore award the claimants KFL (Floor Services) Limited costs of £150 to be paid by the defendants Philip McGarry and Brian John George Lawson not later than 7 days after the expiry of the appeal period below. If an appeal is lodged payment will be suspended pending the outcome of the appeal.

Appeal

26 The period for appeal is 28 days.

Dated this 11th day of July 2003

R C KENNELL
Deputy Director acting for the Comptroller

THE PATENT OFFICE