



BL O/015/07

12 January 2007

PATENTS ACT 1977

BETWEEN

M-Systems Flash Disk Pioneers Ltd Claimant

and

Trek Technology (Singapore) Pte Ltd Defendant

PROCEEDINGS

Application under Section 72 for revocation of patent number GB 2371653

HEARING OFFICER

R J Walker

DECISION

Background

- 1 In my decision O/318/06 I refused to allow amendments, which had been requested under section 75 of the Patents Act 1977, to patent number GB 2371653 and I ordered revocation of the patent under section 72 of the Act. In the same decision I found that M-Systems Flash Disk Pioneers Ltd (“M-Systems”) were entitled to an award of costs against Trek Technology (Singapore) Pte Ltd (“Trek”) but I allowed the parties an opportunity to make submissions on this issue.
- 2 Mr. Platts-Mills, counsel for M-Systems, and Lloyd Wise, patent attorneys acting for Trek, filed written submissions on 22 November 2006. There was a suggestion in the letter covering Mr. Platts-Mills’ submissions that M-Systems might want to be heard on the issue of costs and so the Office wrote to seek clarification. The response from M-Systems’ patent attorneys, Marks & Clerk, stated that M-Systems would not press for a hearing on this matter. This response was also accompanied by further submissions on behalf of M-Systems in response to the submissions of Lloyd Wise.

- 3 This decision relates solely to the issue of costs and is based on the written submissions I have received. I should also record at this point that Trek have lodged an appeal against my earlier decision although this development has no bearing on the need to decide the issue of costs at this stage.
- 4 The parties have significantly different views as to the level of costs I should award. Trek consider the award should be no more than £2,000 whereas M-Systems' claim is of the order of £460,000. This difference arises because Trek submit that the normal Patent Office scale of costs should be used as the starting point whereas M-Systems argue that costs should reflect the actual costs they incurred in making their case.

The principles currently applied

- 5 It is helpful to begin by considering the principles currently applied when awarding costs in proceedings before the Comptroller. Section 107(1) of the Patents Act gives the Comptroller the power to make an award of costs in proceedings before him:

“107.-(1) The comptroller may, in proceedings before him under this Act, by order award to any party such costs or, in Scotland, such expenses as he may consider reasonable and direct how and by what parties they are to be paid.”
- 6 For many years the Comptroller's normal practice has been to award costs as a contribution only to the expenses incurred by the parties. This practice came under the spot light in *Rizla Ltd.'s Application* [1993] RPC 365 following a decision by one of the Comptroller's hearing officers to award costs off a published scale. In *Rizla* Anthony Watson Q.C., sitting as a Deputy Judge of the High Court, confirmed that the discretion conferred on the Comptroller in respect of awarding costs is very wide, with no fetter other than the overriding one that he must act judicially. The Deputy Judge went on to make clear that the Comptroller could order compensatory costs in cases in which a party had abused the Comptroller's jurisdiction, for example, by commencing or maintaining a case without a belief that there is a genuine dispute to be resolved.
- 7 This case law was overtaken in part when in 2000 the Office issued Tribunal Practice Notice (TPN 2/2000) on costs in proceedings before the Comptroller. TPN 2/2000 was published following a consultation with users whose comments taken as a whole supported the general thrust of continuing with fixed reasonable costs, provided that there is flexibility to award costs off scale where the circumstances warrant it. The Office heeded these comments and decided to continue with the policy of generally awarding costs informed by guidance drawn from a scale. It took this decision because in its view it should provide a low cost tribunal for all litigants with a degree of predictability built in as to how much proceedings before the Comptroller, if handled conscientiously by the party, may cost them. However, the Office envisaged that the flexibility to award costs off scale could go beyond the criterion of “without a genuine belief that there is an issue to be tried”, which was developed in the *Rizla* case. The Office took the view that because this flexibility and the Comptroller's

willingness to exercise it in suitable cases had been the subject of consultation and publicity, it meant that there is an established yardstick underpinning the previous practice.

- 8 The Tribunal Practice Notice recognised that it would be impossible to indicate all of the circumstances in which a hearing officer could or should depart from the scale of costs and that it would be wrong to fetter his or her discretion in such a way. That said TPN 2/2000 gives some examples where a hearing officer might depart from the scale, such as the costs associated with evidence filed in respect of grounds which were in the event not pursued at the main or substantive hearing, but the overriding factor is stated to be the need to act judicially in all the facts of the case.
- 9 The scale used for guidance when awarding costs in proceedings before the Comptroller was published as an Annex to TPN 2/2000. It is this scale to which the parties refer in their submissions and is the basis on which Trek's submissions are based. On the face of it, the amounts specified in the scale are relatively small compared to the costs incurred by the parties in a dispute such as the present one. That though is deliberate. As the Practice Notice explains, the costs awarded by the Comptroller are not intended to compensate parties for the expenses to which they have been put. Rather the award is intended to represent only a contribution to these expenses.

The arguments on costs

Is the Comptroller's scale of costs legitimate?

- 10 M-Systems contend that in awarding costs in the present dispute I should deviate from the published scale. In fact they go a step further than this and challenge the legal basis for the practice of having a standard scale for awarding costs.
- 11 First they contend that the general practice on the award of costs, set out in TPN 2/2000, conflicts with the unfettered discretion to award costs given to the Comptroller under section 107. They also observe that in the Practice Notice the Office has promulgated a default position on awarding costs on the basis of a standard scale but has not specified all the circumstances when it would depart from the scale. Furthermore, they suggest that the Office has shown a marked unwillingness to depart from the scale unless the party against whom costs are being awarded has behaved unreasonably in conducting the case. This they state constitutes an inappropriate fettering of the discretion afforded in section 107 and a failure to act judicially on the facts of a particular case.
- 12 M-Systems have also questioned the very legal basis for the default position set out in TPN 2/2000. Contrasting this with the way that the default position is set by Rules of Court, they suggest that there would appear to be no reason why the same mechanism for setting the default position on costs before the Office ought not to have been employed with the Secretary of State putting forward such rules using his powers under sections 123 and 124 of the Patents Act. M-Systems take the view that by adopting a default position, set out in the Practice Notice, the Office has illegitimately taken a general decision

on a matter of public policy of considerable importance without any real public oversight. They continue that it ought to be a matter for elected officials to decide such an issue of public policy, as would be the case where a statutory instrument is laid before Parliament. They submit that absent any such statutory instrument, the Office should apply its general discretion under section 107, without any default position, and consider the whole range of awards from no award to full compensation.

- 13 As recognised by the Deputy Judge in *Rizla* it had been at that time the policy of the Comptroller for many years to award costs in the form of an order for a comparatively small contribution rather than any form of compensatory costs, as was the norm in the High Court. This long standing policy was also acknowledged in TPN 2/2000. Moreover, in his judgment in *Rizla* the Deputy Judge did not appear to consider the existence of a scale as unduly limiting the Comptroller's discretion given that there are a large number of circumstances where the Comptroller can depart from it. Indeed, in that case he found that there was no reason to depart from the normal practice and ordered an award which was no more than a contribution towards the applicant's costs.
- 14 If I were to find that this long standing policy is illegitimate, I would need to have a compelling reason to do so. I have considered carefully the arguments presented by M-Systems but I am not persuaded that they point to the Office having illegitimately taken a general decision on a matter of public policy without any real public oversight. Moreover, I do not consider TPN 2/2000 to be in conflict with the Comptroller's unfettered discretion to award costs under section 107. In my opinion the policy of generally awarding costs informed by guidance drawn from a scale with a view to providing a low cost tribunal for all litigants and with a view to building in a degree of predictability as to costs before the Comptroller falls within the scope of the Comptroller's discretionary power. This is not to say that I could not exercise my discretion to award costs off the scale if the circumstances of the present case warrant it and this is something I must now consider.

Are there grounds for departing from the scale in this case?

- 15 As I have already indicated above M-Systems take the view that I should award costs to reflect the actual costs incurred by them rather than make an award informed by the scale published with TPN 2/2000. They present two distinct lines of argument to justify this view. First they argue that the case was conducted as if in court and so should be treated as such when it comes to costs. Second, M-Systems argue that, in any event, departing from the scale would be justified because the case was exceptional in a number of ways. In particular, they allege that Trek's conduct of the case was in many ways unreasonable and resulted in unnecessary expenditure. Trek is content that I should use the scale as my starting point but seek a reduction because in their view M-Systems lost on a number of substantial issues and conducted the proceedings in a manner which made them more expensive than they should have been.

Case conducted as if in court

- 16 I will begin by considering M-Systems' first point. M-Systems develop their argument by stating that there was a preliminary hearing in February 2005 and that main hearing lasted five days, including two days of cross examination of witnesses. Each side employed two counsel and the associated costs were akin to the costs that would be run up in court. M-Systems justifies the way in which both parties approached the case on the grounds that the patent was immensely commercially important.
- 17 There is no denying that this has been a complex dispute - my 54 page substantive decision and the three preliminary decisions required before the case even reached me provide ample evidence of that. Nor is there any doubt in my mind as to the commercial significance of my decision on the validity of the patent. However, it is not unusual for such cases to be heard before the Office. What is more, there is no escaping the fact that M-Systems had a choice of forum in which this dispute could be heard and they chose the Comptroller. I can only conclude that in doing so they properly considered all the relevant factors, including the possibility that the eventual award of costs might represent a relatively small contribution towards the actual costs of the proceedings. Thus, the fact that the dispute was both complex and commercially important does not in my view justify departing from the scale.

The case is exceptional

- 18 I turn now to M-Systems' second argument for deviating from the published scale; that is the case is exceptional. They have identified six different ways in which they say it is so:
- a. It is defended on an unreasonable basis, that it is the "Thumbdrive Patent", a basis which is factually wholly improbable and plainly unsustainable in law;
 - b. The proceedings have been complicated by the Patentee's attempts to fish out an invention by means of serial amendments which are inadequately supported and/or legally unjustifiable;
 - c. It has been rendered complicated by the conduct of the Patentee;
 - d. It is commercially extremely important;
 - e. It has taken much more time and expense to resolve than is usual in the Patent Office; and
 - f. It has involved procedural steps not catered for in the costs scale annexed to TPN 2/2000.
- 19 I have already considered points (d) and (e) and have found that they do not of themselves justify disregarding the guidance provided by the scale when awarding costs. As for point (f) M-Systems have not elaborated on the procedural steps they say are not catered for in the scale but it seems to me that even if the scale does not list each and every relevant procedural step this

does not provide grounds for abandoning the scale altogether. The scale is provided for guidance and I have discretion to modify it or to depart from it as I see fit.

- 20 Thus I am left with points (a) to (c) raised by M-Systems.
- 21 M-Systems' point (a) is that Trek's defence was unreasonable. In arguing this M-Systems submit that Trek's case was based on an argument that the patent was expressly for Trek's Thumbdrive device, notwithstanding that this device was not described or even referred to in Trek's patent. In other words Trek wrongly used the Thumbdrive as a guide to and the ultimate target for construing the patent. Therefore, in M-Systems' view Trek's approach to construction was wholly illegitimate as a matter of law.
- 22 In my decision revoking the patent I found that the patent did not expressly disclose a Thumbdrive type device. Just because Trek lost on the point is not in my opinion a ground for an award off the scale. Indeed, I do not consider that Trek acted unreasonably by arguing that the patent teaches a compact, unitary device without a cable or with only a stubby cable for connection to a USB socket on a computer. I must therefore dismiss point (a) raised by M-Systems.
- 23 M-Systems expand on point (b) by suggesting that Trek's requests to amend the patent were hopeless because Trek had not put in any evidence in support of these requests. They comment that it is a mystery to them how Trek thought the Patent Office would be in a position to exercise discretion to permit amendment. Furthermore, M-Systems draw from my earlier decision to point out that the amendments put forward were in part pointless or bad.
- 24 As reflected in my earlier decision, a number of amendments to the patent were proposed at various stages of the proceedings. Ultimately I decided that Trek had not discharged the onus imposed upon them to show why I should exercise my discretion to allow these amendments. For example, I was told nothing that would have allowed me to assess whether the amendments were sought promptly in the public interest or whether there had been a culpable delay. However, at the hearing before me counsel for Trek explained that he was unwilling to put in evidence to support the requests to amend because such evidence would inevitably turn on privileged information. Whilst I took the view in my earlier decision that Trek could have assisted me without disclosing privileged information, I am not ready to conclude that Trek pursued the requested amendments without a genuine belief that there was an issue to be decided. Thus, I do not accept the point made by M-Systems that Trek's requests to amend justify an award of costs off the scale.
- 25 As for M-Systems' submissions that some amendments were legally unjustifiable, I do not see how one or more pointless amendments could have contributed significantly to M-Systems' costs. Moreover, the amendment I found to be bad was decided as a matter of construction and I would not criticise Trek for running the point. Again I do not consider that the nature of the amendments requested warrants an off the scale award.

- 26 In their submissions on costs both parties have called into question the conduct of the other to support the proposals for an off the scale or reduced scale award.
- 27 Looking first at M-Systems' submissions, these focus on the need for its legal team to consider over 100 prior art documents, which had been identified by Trek, but because the purpose for which these documents were provided was initially unclear, they had to be analysed more than once. Allied to this they say that the time spent preparing for and cross examining Stephen Howe on these prior art documents was wasted because Mr. Howe's evidence was ultimately abandoned as unreliable. In addition they say that because much of Trek's evidence was put forward on the erroneous basis that the patent was the Thumbdrive patent, this made things unnecessarily controversial and there would have been relatively little to question Trek's witnesses about if they had stuck to matters other than construction.
- 28 Trek do not view the conduct of the case in quite the same light and submit that the maximum level of costs, calculated using the scale, should be reduced by 75% because:
- a. M-Systems lost on a "whole swathe" of the issues, including added matter, clarity and sufficiency, and they were wrong on the law of disclaimers;
 - b. M-Systems submitted over 1000 pages of prior art - very little of which it relied upon. Moreover, M-Systems tried to introduce the "Abbott" prior art very late despite that prior art being irrelevant because of limitations in claim 1 as granted;
 - c. M-Systems put forward three expert witnesses when it was clear that only one was necessary. Moreover, two of the three witnesses (Messrs Fenster and Johnson) were inappropriate as they were patent attorneys with a duty to advance their client's case and never in a position to make their overriding obligation that of assisting me in understanding relevant technical issues. According to Trek, M-Systems' advisors should have recognised this from the outset and should not have made the parties waste resources in dealing with voluminous and ultimately useless partisan evidence. In particular, Trek allege that it was always clear that Mr. Johnson's evidence was not going to assist me and they should not have been put to the expense of dealing with it;
 - d. M-Systems delayed the proceedings and necessitated a second hearing by first saying they could cross examine Trek's expert witness (Professor Kim) in one day and then recognising that this would not be enough. Then, after a fourteen week delay, M-Systems decided it was unnecessary to cross-examine this witness any further. Trek state that the break in the hearing practically doubled the attendance fees of Trek's counsel because they had to prepare for the hearing a second time; and

- e. The sprawling and confused nature of the grounds relied upon by M-Systems led to the preliminary hearing in February 2005 which clarified to some extent the case Trek had to answer.

- 29 In their response to Trek's submissions M-Systems comment that the issues of construction, which they lost, were not unreasonable issues to raise and in particular they point out that their unsuccessful arguments on added matter and lack of clarity/sufficiency were effectively squeeze arguments designed to show that Trek's preferred construction was defective. I recognise that both parties explored and lost points on the core issue of construction and at its periphery, and in particular I would not criticise M-Systems for running its squeeze arguments. Also M-Systems advocated a position on the law of disclaimers, which I ultimately did not accept, but in my view their action was not unreasonable. Overall I do not think I would be justified in penalising one or other of the parties on costs on the basis of points lost. Merely because a party has lost an argument does not of itself mean that their behaviour in raising the matter was unreasonable.
- 30 There is no doubt that a vast number of documents were filed by both sides in this case. M-Systems comment that it was necessary to submit a substantial amount of prior art given the vagueness of the terminology in the patent and the proposed amendments. This seems reasonable in the circumstances. In addition to the prior art relied on to establish a lack of novelty and/or inventive step at the hearing before me, M-Systems filed a significant amount of prior art (not all of which it relied on in the final analysis) to establish the common general knowledge and the meaning of language used in the art. By and large, in my view, M-Systems adequately identified the intended purpose of this additional prior art and I do not accept that Trek was put to unreasonable cost in considering it. As for the introduction of "Abbott", I do not believe this was unreasonable. Trek on the other hand filed 113 documents to demonstrate how, despite the plethora of prior art cited against the patent and its equivalents, none teaches the concept sought to be claimed. However, during the course of the hearing it became clear that this collection of documents had not been assembled with the care I would have expected. Eventually, towards the end of the hearing this collection was pruned to 29 pieces of prior art. In light of this it is my opinion that M-Systems were put to an unnecessary cost when first confronted with the 113 documents and it merits an uplift in the contribution to their costs.
- 31 Although M-Systems accept that Dr. Fenster's evidence was not treated as expert evidence, except where it was uncontested, they maintain that nonetheless it was helpful because it put forward the arguments at an early stage. As for Mr. Johnson's evidence, M-Systems comment that it revealed the flaws in the evidence of Trek's witness, Stephen Howe. I would have more sympathy for Trek's point had I not flagged up at the outset of the hearing a concern about the nature of some of the evidence filed in these proceedings. At that time counsel for Trek indicated that he was content to leave things as they were bearing in mind it is well established that an attempt by a witness to construe a claim could be of no assistance to me. Counsel for Trek also did not disagree with a proposal by M-Systems' counsel that cross-examination

would be restricted to matters which would be of assistance to me. All in all I am not persuaded that the evidence put in by Messrs Fenster and Johnson exposed Trek to unnecessary costs.

32 It was unfortunate that it was necessary to adjourn the hearing because M-Systems wanted to complete the cross-examination of Trek's expert witness at a later date. I accept that this would have increased the costs for both sides. Prior to the hearing it was absolutely clear that the witness was only available for the day but I cannot criticise M-Systems' counsel for discovering during the course of the day that this would not be enough. I also accept that counsel for M-Systems lost just under an hour of the day set aside for this cross-examination but I am in no doubt that M-Systems' counsel accepted that extending the day by an hour would not have enabled him to complete the cross-examination. In my view it was reasonable that he should have been allowed the opportunity to continue the cross-examination at a later date if it could not be completed in the time originally set aside. The fact that the hearing continued without the witness being recalled does not in my view undermine the reasonableness of this. Therefore, overall I do not accept that this is a factor justifying an increase or a reduction in an award based on the scale.

33 In response to the point made by Trek that the case against them was sprawling and confused, M-Systems state that it is misleading to characterise M-Systems' grounds in this way. They accept, as I think they must, that argument, evidence and pleadings were fused in a way not usually encountered in proceeding before the Comptroller but in their opinion this did not amount to an incoherent document. M-Systems also point out that at the preliminary hearing Trek failed to put off the planned substantive hearing and M-Systems' pleadings were left largely intact. Indeed, at the preliminary hearing the hearing officer found that the defendant knew the case to be answered. Therefore, I am not persuaded that the clear deficiencies in the manner M-Systems presented their case led to unnecessary expenditure by Trek.

34 I should perhaps mention here that both M-Systems and Trek seek costs in respect of this preliminary hearing. I note that in his decision, following the hearing, the hearing officer did not award costs since neither side had asked for them at that stage. From this I take it that the hearing officer had deferred the matter of costs. Nevertheless, it seems to me that the parties came out even from this preliminary hearing and so I do not propose to award costs in respect of the application by Trek to postpone the substantive hearing.

The scale should be adjusted for inflation

35 Finally, before I put an actual figure on the award of costs to M-Systems, I should deal with an argument advanced by M-Systems that if the scale is to be used to determine the award, it should be adjusted to reflect the inflation in legal fees since 2000 when the scale was last reviewed. Whilst I understand the point, the current published scale is that annexed to the 2000 Tribunal Practice Notice and that is the scale I shall use.

Conclusion

- 36 I have carefully considered the various arguments submitted by both parties on the question of costs arising in these proceedings, including the preliminary hearing that took place in February 2005, and I have concluded that there is no reason why I should award costs significantly off the scale used for guidance when awarding costs in proceedings before the Comptroller. However, the order below represents a small uplift in recognition of unnecessary costs incurred by M-Systems when considering some of Trek's evidence.

Order

- 37 I order that the defendant, Trek, shall pay the claimant, M-Systems, the sum of £8,500 within 7 days of the expiry of the appeal period below. Payment will be suspended in the event of an appeal.

Appeal

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

R J Walker

Divisional Director acting for the Comptroller