BL O/292/05

2 November 2005

PATENTS ACT 1977

BETWEEN

	ASI Solutions PLC	Claimant
	and	
	Nupro Limited and Nu-Phalt Limited	Defendants

PROCEEDINGS	References under sections 13 and 37 in respect of, and application under section 72 for revocation of, patent number GB 2344369
HEARING OFFICER	D J Barford

PRELIMINARY DECISION

1. This decision addresses the issue as to whether or at what stage certain correspondence between the parties should be admitted into the proceedings.

Background

2. 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").

3. 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 re-named 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.

4. The usual evidence rounds followed and the matter was scheduled to be heard before the comptroller on 5 July 2004.

5. 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.

6. 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. Following an exchange of correspondence, the parties agreed that the hearing should be adjourned subject to certain conditions. These include 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".

7. On 16 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.

8. Over the months following the adjourned hearing, the parties exchanged a considerable volume of correspondence, often acrimonious, as to what was meant by wasted costs and what an appropriate sum would be. No agreement having been reached, the Office requested formal submissions on the matter. Accordingly ASI filed submissions dated 7 March 2005, in response the defendants filed submissions in a document dated 15 April 2005, and ASI submitted observations in reply dated 25 August 2005.

9. Paragraph 32 of the submission of 7 March 2005 by ASI reads:

> "Paragraphs 33 to 42 below refer to "without prejudice save as to costs" correspondence. This is a conscious decision; the issue in dispute is a costs issue and any "without prejudice save as to costs" correspondence may therefore be disclosed".

10. In their response the defendants strongly oppose admission of this correspondence, and submit that paragraphs 32 to 42 should be struck out. They argue that this correspondence should not be considered until after a decision has been taken on the wasted costs issue. In its response of 25 August 2005, ASI maintains its position.

11. The parties have agreed that the way forward in these proceedings is that the wasted costs issue - including a request by the defendants to have ASI's application for wasted costs struck out - should be heard before the substantive issues under sections 13, 37 and 72, and that the dispute over the admissibility of correspondence should be considered as a preliminary issue by a different hearing officer to the one taking the wasted costs hearing (which is scheduled for 22 November 2005). It is that issue of admissibility then which I address in this preliminary decision.

The "without prejudice" rule of evidence

12. Both sides refer to a number of well known authorities on the "without prejudice" rule, under which communications made for the purposes of a genuine attempt to settle a dispute are - in general - privileged.

13. The defendants refer - in general terms - to *Unilever plc v The Proctor & Gamble Company* [2000] FSR 344; *Rush & Tomkins v Greater London Council* [1989] AC 128; and *Cutts v Head* [1984]1 All ER 597 on the purpose of the rule, and *Chocoladefabriken & Sprungli AG v The Nestle Co Ltd* [1978] RPC 287 and *Walker v Wilsher* [1889] 23 QBD 335 on what material can properly be regarded as privileged under the rule.

14. ASI, in paragraph 21 of its submission dated 25 August 2005, states that it does not dispute that privilege is attached to the correspondence referred to at paragraphs 33 to 42. However it goes on to argue that the present case represents one of the exceptions to the rule, citing *Rush*, *Cutts* and in particular *Unilever* in this context.

15. In *Unilever*, Robert Walker LJ said that the are "numerous" occasions on which the without prejudice rule does not prevent the admission into evidence of what one or both of the parties said and wrote, and went on to give a number of examples. The most relevant of these examples to the present proceedings concerns offers made "without prejudice save as to costs", which offers are based on an express or implied agreement between the parties to vary the application of the rule.

16. Under this variation, communications made for the purposes of a genuine attempt to settle a dispute are privileged, however when it comes to determining costs, such communications can be taken into account. The key question is, at what stage can they be taken into account in the present circumstances? ASI argues that since the issue in dispute is itself a costs issue, namely that of wasted costs, the communications should be disclosed at the outset. The defendants disagree.

Conclusions

17. It seems to me necessary in the present case to distinguish between, on the one hand, what will effectively be the substantive issue at the forthcoming hearing, which is the issue of wasted costs; and on the other hand, any costs award that the hearing officer might choose to make having reached a decision on that substantive issue. Such a cost award will take into account which party the decision on the substantive issue favours (if it does) and such factors as the conduct of the parties in their approach to the substantive issue. In considering the substantive issue - under which I include the defendants' request to have the claim for wasted costs struck out - the hearing officer will no doubt address submissions from the parties on, amongst other things, the costs of carrying out particular tasks, the extent to which those costs are relevant, and the extent to which to which those costs can legitimately regarded as wasted. In the context of hearing that substantive matter, it seems to me that the correspondence in question has to be regarded as privileged insofar as it was understood by the parties to have been made for the purposes of a genuine attempt to settle the dispute, that is to say the dispute over the quantum of wasted costs. That to me is the whole essence of the without prejudice rule.

18. Additionally in this case, the parties have agreed to vary that rule through the rider “save as to costs”. That, it seems to me, has to be regarded as an agreement that enables any material to be admitted into evidence which might inform a decision as to any award of costs following the decision on the substantive matter, and which would otherwise have been excluded under the without prejudice rule - notably details of negotiations between the parties, including any offers made and how they were received.

19. I conclude: firstly that the correspondence relates to a genuine attempt to settle the dispute over the quantum of wasted costs - and that it is therefore privileged for the purposes of deciding that dispute, and secondly that the rider “save as to costs” indicates that after a decision has been reached on that dispute, the correspondence should be admitted into evidence so that it can be taken into account when assessing any award for costs. It will be a matter for the substantive hearing officer as to the details of the timing and the mechanics of its admission. Finally, I note that the alternative conclusion - that the correspondence should be admitted now - would mean that the “without prejudice” qualification, used by ASI as well as by the defendants, would be rendered redundant and meaningless. That cannot, it seems to me, have been the intention of those who drafted the correspondence.

20. I turn next to the detailed consequences of the above conclusion.

21. In its submission of 7 March 2005, ASI discusses the “without prejudice save as to costs” correspondence in the passage at paragraphs 32 to 42. The defendants have requested that this passage be struck out pending a decision on wasted costs. In the light of my conclusions above, I agree with that request.

22. As to individual items of correspondence, those referred to in paragraphs 32 to 42 of ASI's submission of 7 March 2005 are to be found at tabs 26 to 50 of that submission. They include copies of attendance notes, telephone messages, emails and letters - many, but not all, headed “Without prejudice save to costs”. Material can fall under the without prejudice rule even if it does not specifically use the expression "without prejudice" (see for instance the judgement in the *Chocoladefabriken* case referred to above). Equally, the mere fact that something is labelled “without prejudice” does not necessarily mean it is privileged. As is clear from the judgement in *Schering Corporation v Cipla Ltd* [2004] EWHC 2587 (Ch), what is important is whether or not a document’s author genuinely intended it to be a negotiating document and how it would be received by a reasonable recipient.

23. However in these proceedings, neither side has put in detailed submissions as to which particular items should or should not be taken into account in this preliminary decision. ASI states that it does not dispute that privilege is attached to the correspondence referred to at paragraphs 33 to 42, which I take to mean that correspondence as a whole. I am minded, in consequence, not to admit any of the items referred to in those paragraphs.

Order

24. In accordance with my conclusions, I order ASI to file a redacted version of its submission of 7 March 2005 at least five days before for the hearing, omitting

paragraphs 32 to 42. I direct that the copy of that submission placed before the hearing officer should also exclude the documents at tabs 26 to 50, and that no other copies of those documents should be admitted into evidence.

25. I also direct that after a decision has been reached on the issue of wasted costs, all of the excluded material be admitted so that it can be taken into account when any award for costs is subsequently assessed.

Costs

26. Neither side has asked for costs in respect of this preliminary issue. In the circumstances it seems to me appropriate to defer any question under this head until an appropriate later stage in the proceedings.

Appeal

27. Under the Practice Direction to Part 52 of the Civil Procedure Rules, the appeal period is 28 days, which extends beyond the date scheduled for the hearing on wasted costs. If the defendant wishes to appeal it can seek an urgent appeal before the hearing date, or alternatively it can appeal after that date if unsuccessful at that hearing.

DAVID BARFORD
Deputy Director acting for the Comptroller