



BL O/022/06

18 January 2006

PATENTS ACT 1977

BETWEEN

Ingenico (UK) Limited

Claimant

and

Newt Limited

Defendant

PROCEEDINGS

Application under section 72 of the Patents Act 1977 for the revocation of patent number GB 2360867

HEARING OFFICER

R C Kennell

PRELIMINARY DECISION

Background

- 1 Notice of grant of patent no GB 2360867 was published in the Patents and Designs Journal on 24 July 2002. The claimant applied to revoke the patent on 25 June 2004 on the grounds of one or more of lack of novelty, lack of inventive step and exclusion under section 1(2) of the Act from patentability, and filed a statement to that effect. In a letter dated 10 August 2004 the claimant sought to introduce a further relevant prior art document into the proceedings.
- 2 On the same day, the defendant wrote to ask for an extension (which was subsequently allowed) of the period to file a counter-statement because of the impending absence of its agent and to give it time to consult counsel. Its letter made no mention of the amendment; but in telephone discussion with the Patent Office on 14 September 2004 its agent explained that the defendant would need to see a supplementary or amended statement from the claimant before commenting on the admissibility of the further prior art. Following the filing of an amended statement on 16 September 2004, the defendant wrote on 11 October 2004 stating that it had no objection to the inclusion of the new prior art but requested costs "of and occasioned and

thrown away” by the amendment. However, in paragraph 1 of its counter-statement filed on 20 October 2004 the defendant raised a more general concern about the statement, saying that it consisted of lengthy and repetitive submissions which could not be answered succinctly or by reference to specific paragraphs, these being unnumbered. Save where a matter was specifically admitted, the defendant therefore denied the applicant’s allegations even if not specifically addressed in the remainder of the counter-statement.

- 3 In a letter to the claimant on 4 November 2004, the defendant expanded on the respects in which it found the amended statement inadequate and now asked for it to be further amended, because it was unclear as to the case which it was expected to meet. The proceedings were however stayed until 31 March 2005 while the parties attempted to reach a settlement, but this got nowhere and the proceedings resumed with the adequacy of the statement still in issue.
- 4 Correspondence between the parties (which I do not need to go into in detail) failed to resolve the matter, which came before me at a preliminary hearing on 21 September 2005. Douglas Campbell, instructed by Murgitroyd & Company, appeared for the claimant. Giles Fernando, instructed by David Keltie Associates, appeared for the defendant. The points in issue were the adequacy of both the statement and the counter-statement, and the “wasted costs” of the defendant as a result of the amendment of the statement.
- 5 From comments made by both Mr Campbell and Mr Fernando at the hearing, it seemed to me that there was a realistic chance of the parties being able, with the advice of counsel, to agree upon amendments to the statement and counter-statement. I therefore gave the parties a breathing-space until 22 October 2005 to see if they could indeed reach agreement. Unfortunately this got nowhere: although the defendant suggested a form which a re-amended statement might take and the claimant had no argument with its accuracy, the claimant thought their statement was sufficient and gave significant extra information. It therefore falls to me to decide the adequacy of the pleadings, and any outstanding issue of costs, on the basis of the amended statement and the counter-statement.

The patent in suit

- 6 The patent relates to improving the security of payments by credit or debit card in which the amount to be paid can include a gratuity. The use of electronic fund transfer networks in the UK is governed by standards promulgated by the Association for Payment Clearing Services (APACS). Typically, in accordance with the APACS 30 standard, the card details and sale amount are entered at a merchant terminal and sent as an

authorisation request to an acquirer host terminal whose function is to capture data for the card issuer. An authorisation code is then sent back to prompt the printing of a slip for signature, but if a gratuity is then added the final amount will differ from the original authorised amount. However under APACS 30 the authorisation code usually has a tolerance of amounts lying within a percentage, typically 15%, of the originally authorised amount; fresh authorisation is therefore not often required and the merchant needs only to recall the transaction details and substitute the final amount. In accordance with another standard, APACS 50, the merchant terminal is “polled” at a later stage (usually at night when activity is low) by the acquirer terminal to upload for settlement all authorised transactions for a period.

- 7 Such systems are wide open to abuse by merchant staff tampering with the gratuity amounts. Also, the polling process is expensive and not always reliable. The invention gets round these problems by determining the gratuity amount before authorisation and constructing an authorisation and uploading request which gives the acquirer all the details necessary to authorise the transaction and upload it for subsequent settlement. The link between the merchant and acquirer terminals is established, and information is transmitted between them, in accordance with the APACS 40 standard for enabling on-line authorisation at the time of the transaction. The invention therefore does away with the need for authorisations to have inherent tolerances which can be manipulated, and with the need for subsequent recall of final details by polling.

The adequacy of the pleadings

The principles for assessment

- 8 The statement was drawn up by the claimant’s patent agents, Murgitroyd & Co. As amended it consists of eight pages of single-spaced text, the paragraphs being unnumbered as the defendant has noted. Before I go any further into the adequacy or otherwise of its contents, I need to establish the principles which should govern my considerations in the light of conflicting arguments put forward by Mr Fernando and Mr Campbell.
- 9 The essence of Mr Fernando’s argument was that I was bound by the Civil Procedure Rules (“CPR”) to follow High Court procedures and that Tribunal Practice Notice 1/2000 [2000] RPC 587, which notified changes to practice in proceedings before the comptroller following Lord Woolf’s report *Access to Justice*, was specifically intended to bring patent hearings into line with the CPR. In his view the present hearing was a case management conference as provided for by paragraphs 39-40 of the Notice (Mr Campbell did not agree) and should follow the same procedures as the court, whilst paragraphs 20 - 24 of the Notice on the presentation of a statement of case was specifically intended to mirror rule 16.4 CPR on the contents of a claim.

- 10 On this basis Mr Fernando developed an argument that the claimant's statement would have been struck out in the High Court as contrary to the Practice Direction to Part 63 CPR and because it was unsatisfactory on a number of counts. He accepted that non-compliance with the Practice Direction was not itself a ground for striking out the statement, but contended that where there was an equivalent jurisdiction to the court equivalent standards should be applied and there should be no two-tier system - the principles and overriding objectives of the CPR applied equally in the Patent Office. He did not specifically identify which provisions of the Practice Direction were not complied with, but identified five criteria which he thought should be met for pleadings in the Patent Office and which were not complied with in the present case:
- they should be clear and unambiguous;
 - they should not be lengthy and unstructured;
 - they should relate to material facts and not evidence;
 - they should be limited to material facts and should not make submissions (in the present case this seemed to be directed at sentences commencing "It is submitted" rather than any point of substance); and
 - (since the respondent was obliged to answer every point) they should be limited to the necessary facts and should not introduce irrelevant matter.
- 11 Mr Campbell observed that although the defendant had objected to the clarity of the applicant's statement, it had nevertheless been able to draft a counter-statement in reply. He thought that Mr Fernando's argument showed a loss of proportion. In Mr Campbell's view the Tribunal Practice Notice was a historical document that had been superseded by the more detailed guidance now given in the Patent Hearings Manual, and that even if the Manual was not binding on me it was there that I should primarily look, rather than at the procedures of the court. He urged me to resist the introduction of the CPR "by the back door", and drew my attention to the guidance in paragraphs 2.21 - 2.47 of the Manual (March 2005 edition) on statements of case and their amendment.
- 12 Both Mr Campbell and (in reply) Mr Fernando quoted extensively from this part of the Manual in support of their respective cases. I am not going to go through the particular paragraphs that they quoted in great detail. Mr Campbell drew particular attention to passages in paragraphs 2.25, 2.27, 2.30, 2.33, 2.38 and 2.46 to show that argument could be included in a

statement if necessary to make the case clear, that the layout required by the courts was not necessary, that the real mischief lay in statements which were too sketchy, and that a pragmatic approach should be adopted to the amendment of statements of case. Mr Fernando countered this by reference to wording in paragraphs 2.21, 2.23, 2.24, 2.27, 2.28, 2.32, 2.36, 2.38 and 2.39 which followed the line taken by the CPR or drew analogies with them, and which emphasised the need to include all the matter on which it was intended to rely, to have a proper definition of the matters in issue and to avoid prolixity.

- 13 At the hearing I drew attention to paragraphs 1.74 - 1.76 of the Manual on the relevance of the CPR to proceedings before the comptroller. I do not think I need to quote these paragraphs extensively. In essence they state (1.74) that the comptroller is not bound by the CPR, but that the latter do have a significant influence on Office proceedings for a number of reasons and that the comptroller must therefore have "full regard" to them; particular reference is made to the equivalent powers of the comptroller and the court in relation to the giving of evidence, the attendance of witnesses and the discovery and production of documents. The point is made (1.75) that the overriding objective of r.1 CPR to deal with cases justly is equally applicable to the comptroller. However, it is also made clear (1.76) that a tribunal such as the comptroller is expected to be a less formal and cheaper forum than the court, and that this has to be borne in mind when deciding how far to follow court procedures.
- 14 Mr Fernando however maintained his argument that the Practice Notice was intended to bring the comptroller into line with the CPR and that it would be surprising if Office departed from them. However, I cannot read into the Practice Notice any such indication. Paragraph 1 of the Notice makes clear that it is intended to apply Lord Woolf's general principles to proceedings before the comptroller so as to simplify them and speed them up, thereby reducing the cost to customers. It says that those principles were implemented by the CPR, but that is as regards the courts and I do not see that it follows that the CPR must apply in their full rigour to the comptroller. Indeed, there would be no point whatsoever in giving jurisdiction to both the court and the comptroller if the latter is constrained to follow court procedures in every detail.
- 15 I am therefore not at all surprised if proceedings before the comptroller diverge in some respects from the CPR - it would be more surprising to me if they did not. The proceedings before the comptroller are governed primarily by the Patents Acts and Rules. Whilst I think the CPR may be indicative in some cases of the procedure to be followed where the Act and Rules are silent, I do not think I am bound to apply the CPR in all cases where there is such a lacuna, still less to treat the CPR as a sort of "gloss" which applies automatically to the provisions of the Act and Rules.

- 16 The Practice Notice was published more than five years ago and its contents are now reflected in the Patent Hearings Manual except where modified or superceded by subsequent changes in practice (see paragraph 1.79). I therefore believe that I should look primarily to the Manual for guidance as to the adequacy of the pleadings.
- 17 I think that Mr Campbell's approach is the right one. However, both Mr Campbell and Mr Fernando quoted selectively from the manual in support of their respective cases, and I think it is important to read the guidance in paragraphs 2.21 - 2.47 as a whole, and in context, having particular regard to paragraphs 1.74 - 1.76 which I have mentioned above. Adopting this approach, I am quite satisfied that I am not constrained to follow the CPR in every respect. As I read it, the central thrust of the guidance is that statements of case are expected to set out in reasonable detail and with sufficient clarity the case which is to be answered, without necessarily following all the procedures required by the court. I do not therefore think it will necessarily be fatal if the content strays somewhat beyond material facts, so long as the case to be answered is clear and is not obscured by irrelevant matter. Paragraphs should be numbered for ease of reference as stated at paragraph 2.20 of the Manual. Examples of acceptable forms of statement are annexed to Chapter 2 of the Manual, but I would emphasise that these are not binding.
- 18 On the need for statements to have a proper definition of all the matters which are in issue, Mr Campbell emphasised that the real danger was in being too sketchy rather than too detailed. I noted that the Tribunal Practice Notice had been drafted against a historical background of inadequate pleadings, particularly in the Trade Marks Registry, which did little more than identify the legislation under which the case was brought (see paragraphs 15 - 19 of the Notice, and now paragraphs 2.38 - 2.39 of the Manual). That I think must be borne in mind when assessing the present statement, to which I can now turn.

The amended statement

- 19 This opens by submitting that each and every claim is not patentable because the invention is not new, or lacks inventive step, or is excluded from patentability; and in particular that it lacks any technical effect. A section headed "Claim 1" then follows which discusses the patentability of the invention in relation to the APACS standards, making the point that the addition of a gratuity following initial "swiping" is the only difference over a conventional APACS 40 transaction and is non-technical in character. Reference is then made to two specifications US 5748908 (Yu) and DE 3423068 A (Sharp) to show that claim 1 lacks novelty. The amendment to the original statement then follows (still under the heading "Claim 1"). It

refers to US 5933812 (Meyer) as anticipating independent claims 1 and 22 and “at least dependent claims 2-8, 15-17 and 23” and goes on to state that “the remaining dependent claims” lack an inventive step over Meyer (but appears also to bring in arguments based on Sharp). Resuming the original wording, the section on Claim 1 ends with a discussion of the arguments raised during the examination of the patent in suit. There then follow a series of sections covering claims 2-24, each essentially saying that all of these claims lack novelty or inventive step or are excluded from patentability for various reasons, apparently on the basis of what is well known in the art or is stated in the patent in suit; no reference is made to any of the above patent documents despite the references to lack of inventive step in relation to Meyer and Sharp. Finally, the statement concludes with a section “Commercial and Technical Background” which appears to stand apart from the remainder of the statement, although it argues that the invention is “nothing more than a method of doing business (and associated computer programming)” and does not indicate any inventive step.

Arguments

- 20 As I have mentioned above, Mr Fernando argued that the statement was defective on a number of grounds. He developed these arguments at the hearing, and made the additional point that the statement did not pin the applicant to a particular case. Specifically he thought (i) it did not identify with sufficient particularity which citations were for novelty and which for obviousness, (ii) it did not make clear whether all of the three grounds of objection were maintained against the dependent claims, and if so on what basis, and (iii) it was prolix and contained much irrelevant matter. He drew specific attention to what he saw as the lack of clarity in relation to novelty and inventive step over Meyer, the lack of structure and absence of paragraph numbers, and the inclusion of apparently irrelevant matter relating to the prosecution of the application for the patent in suit - but which on the face of it nevertheless fell to be answered.
- 21 Mr Campbell’s starting point was that the defendant knew perfectly well what case it had to answer. He pointed out that the defendant had raised no objection to the original statement, and had filed a counterstatement which in his view provided a succinct response to the claimant’s amended statement except for the case over common general knowledge. In relation to Mr Fernando’s request for a statement as to which prior art publications are alleged to render each claim invalid, Mr Campbell thought this was just what the statement had tried to do, and felt that the defendant should be required to nominate which claims it wished to defend. Mr Campbell however accepted that some clarification could be made in relation to the claims alleged to be impugned by Meyer. Nevertheless he thought it would be helpful if the defendant would identify the extent to which it agreed with the claimant’s assessment of the differences between a conventional APACS

40 transaction and the patent in suit, and thought this might now be the main focus of the dispute with the importance of Yu and Sharp being relatively limited.

- 22 On Mr Campbell's point that the defendant had delayed raising fundamental objections to the statement until after the amendment had been made, Mr Fernando said that although the amendment was the main reason for objection, nevertheless the defendant's view was that the statement had been defective from the outset. I note however, that this was not flagged up until the defendant filed its counter-statement three and a half months after the Patent Office had sent the original statement to it, and that previous correspondence had been directed only to the admissibility of the amendment with no hint that the defendant might have more fundamental objections to raise.

Assessment

- 23 It is not for the hearing officer to dictate in precise detail how the parties should make their respective cases before the comptroller; that is ultimately the responsibility of the parties. I am therefore very reluctant to order amendment of the claimant's statement unless it is clearly necessary, bearing in mind that the defendant has been able to file a counter-statement and that a considerable length of time has since elapsed.
- 24 Nevertheless in the light of the principles that I have explained above I consider that there is substance in Mr Fernando's objections (although I think he was wrong to argue his case on the basis of the CPR). It seems to me that, even if the defendant has been able to make a fair attempt at a counter-statement, the claimant's statement is seriously deficient in too many respects, to the point of obscuring rather than explaining the claimant's case.
- 25 Thus in my view, the statement generally fails to distinguish the arguments for each of the three grounds of objection - novelty, inventive step and excluded invention - and to make clear whether they are all being run against any particular claim (see for instance the third and fourth paragraphs of the opening section at page 1 and the discussion of claims 2 - 24 at pages 5 - 7). Further:
- the inter-relationship between the general discussion of the APACS protocols and electronic fund transfer systems at pages 2-3 and the commercial and technical background described at page 8 is unclear;
 - the discussion of Yu and Sharp at pages 3 - 4 makes reference to the claims against which these documents were cited in the search report on the international application corresponding to the patent in suit, but does not

make clear how, if at all, these claims are relevant to the present proceedings;

- as explained in more detail in paragraphs 21 - 22 of Mr Fernando's skeleton argument for the hearing, the amendment at pages 4 - 5 referring to Meyer is not clear and is not consistent with the remainder of the statement as regards what claims are impugned and on what grounds;

- the second complete paragraph at page 5 revisits arguments advanced during the prosecution of the application and the relevance of this to the claimant's case is not apparent; and

- the paragraph "Claim 21" at page 7 includes a discussion of claims in the original patent application which are not present in the granted patent, and mentions the citations made against them, without making clear how those citations are now relevant (if indeed they are).

26 On the matter of prolixity, I do not take any objection to the length of the statement (eight pages) as such. However, as I explain in the above paragraph, I think the statement may have been unnecessarily extended by the presence of irrelevant matter.

27 I do not think it suffices for Mr Campbell to say that, even if there may be deficiencies in the statement this does not matter because the defendant has been able to answer the allegations and submit its counter-statement. On its own admission, maintained in its letter of 24 October 2005 after the hearing, the claimant believes that there are further points which the defendant ought to address. If the statement and counter-statement go ahead as they stand, I think there is a real risk of evidence being directed to the wrong points. I therefore think it is incumbent on the claimant to particularise its case with more clarity so as to avoid uncertainty as to what actually is in issue.

28 I am therefore going to order the claimant to file a re-amended statement in order to overcome the above deficiencies. If the claimant wishes to adopt the format of the re-amended statement suggested by the defendant in the post-hearing correspondence (see above), I have no objections but I do not insist on it - although paragraph numbers should be included. As to the content, if the claimant believes that the "significant additional information" to which it refers is necessary in order to make out its case, then it should include it. It should also state clearly and unambiguously what claims are attacked and on what grounds. Further, it would seem to me to be particularly helpful and highly desirable to identify the relevant parts of any documents and to relate any discussion of commercial and technical background and the APACS protocols more clearly to each of the specific grounds for revocation.

29 Further if, as Mr Campbell appeared to suggest at the hearing, the focus of the claimant's case has shifted as regards the relevance of Yu and Sharp and it now turns on the difference between the APACS 40 protocol and the invention, then this ought to be reflected in the re-amended statement. Again, though, I am not clear whether the claimant is alleging that this difference goes to lack of inventive step or to excluded subject-matter.

The defendant's counter-statement

30 The claimant seeks an order that the counter-statement should identify which claims they wish to defend as having independent validity and whether they admit that the only difference between claim 1 and the APACS 40 protocol are as mentioned at page 3 of the statement (ie the addition of a gratuity). I consider that it is not appropriate for me to do so, at least at this stage. Whether amendment is necessary to the counter-statement will depend on how the claimant amends its statement. I would however observe that in general the defendant will be take to admit any allegation made by the claimant if it does not deal with it in the counter-statement (see paragraph 2.34 of the Patent Hearings Manual).

Order

31 I therefore give the claimant a period of 28 days in which to file a re-amended statement, failing which the application for revocation will be treated as unconditionally withdrawn. The defendant will be then be given a period of 28 days to submit an amended counter-statement, starting from the date on which the comptroller sends to it any such re-amended statement. Given the considerable length of time that has elapsed since these proceedings were launched, I do not propose to extend these periods except for the most compelling of reasons.

32 I regret that it has taken me some time to issue this decision. However, as explained above this was in part due to me giving the parties an opportunity to agree mutually acceptable amendments to their respective statements of case, and I am disappointed that the parties were not able to bridge what appears to be a relatively small gap between them. I would remind the parties that they are expected to assist the comptroller in achieving the overriding objective of dealing with cases justly (see paragraphs 2.05 - 2.06 of the Patent Hearings Manual). Now that I have made my decision on the adequacy of the pleadings I will expect their cooperation in complying with my order above. In this regard I would remind the parties that it is open to the comptroller to penalise any future unreasonable behaviour when awarding costs.

33 My order will be suspended in the event of an appeal, or if the parties are

able to agree between themselves and to my satisfaction the form and content of the statement and counter-statement.

Costs

- 34 The defendant has asked for a “wasted costs” order in relation to the amendment to add the further document (Meyer). The claimant, considering that the defendant has acted disproportionately and indulged in unnecessary procedural wrangling over the adequacy or otherwise of the statement, asks for costs in relation to the preliminary hearing. At the hearing Mr Campbell accepted that the claimant would be responsible for costs relating to the amendment, but thought these should only be trivial.
- 35 The defendant has won and is in principle entitled to an award of costs. However, I have some sympathy with the claimant’s argument. The amendment was sought relatively quickly, before the defendant had filed a counter-statement, and so I do not think the defendant will have been put to any disproportionate expense because of the making of the amendment. I think it is any case balanced by the significant delay of the defendant in making clear that it had fundamental objections to the statement and wanted it to be amended.
- 36 As the parties have been reminded, costs before the comptroller normally take the form of a contribution to expenses in accordance with a published scale. There is no standard form of interlocutory order or wasted costs order such as the defendant seeks. Taking into account all the factors mentioned above, I award the defendant costs of £500 in relation to this preliminary matter, to be paid by the claimant within 7 days of the expiry of the period for appeal below. Payment will be suspended in the event of an appeal.

Appeal

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

R C KENNEL

Deputy Director acting for the Comptroller