

CA on appeal from the High Court. Ch. Div. Patents Court (Mr Justice Laddie) : 8 May 2002

1. **LORD JUSTICE ALDOUS:** I invite Lord Justice Longmore to give the first judgment.
2. **LORD JUSTICE LONGMORE:** The claimant in this matter is a Mr Peter Brawley who, at all material times, was a student. He apparently had watched an Open University programme about inventions and patents and determined that he would try his hand in seeing if he could come up with an invention which would be marketable and profitable. The result of this was that in early 1990 he designed a very elegant little device which could be fitted over the wheel nuts on lorry wheels; this device by using radial arrows gave a clear, simple visual indication if one or more of the nuts were working loose. It came to acquire the name "Checkpoint". Mr Brawley, being a student, was not in a position to exploit this. He contacted Mr Michael Marczyński, the first defendant in this action, and Business Lines Limited, Mr Marczyński's company, which is the second defendant.
3. Mr Brawley believed that he had entered into an agreement under which he would pay half the costs of obtaining a patent relating to his safety device, while the defendants would exploit the patent and the device and pay 50% of any profits over to Mr Brawley.
4. Evidence has been put in on behalf of the defendants in the form of a witness statement by Mr Mark Lewis, the solicitor acting on behalf of the defendants. He described the invention thus: *"The invention is simple. The costs of setting up manufacture are small. The product is profitable."*
5. The judge said that this description was, if anything, something of an understatement. It appears that the defendants made about 90% profit on the sales of the product.
6. According to Mr Brawley, the parties having come to this agreement, certain sums of money were paid to him as his entitlement. However, by the beginning of October 1996 Mr Brawley became concerned at the very low level of payments which he was receiving. On 4th October he arranged for his accountants to write to Mr Marczyński. In their letter they said: *"We are aware that your company has made two payments to our client in respect of his share of the income. We are also aware that during the development period he has been invoiced and has paid 50% of the costs. On our client's behalf, would you let us have a detailed reconciliation of the income and expenditure to date."*
7. The chronology of the matter is that having obtained no satisfactory response from the defendants in relation to the provision of the information requested, the claimant began proceedings in September 1997. Those proceedings claimed in the prayer (*inter alia*):
 - "1. That [the defendants] do account to the Plaintiff for all dealings with and profits and receipts made from the invention.
 2. That it be declared that the patent and/or the Trade mark and/or all intellectual property rights in respect of the invention are held for and on behalf of the Plaintiff and/or alternatively that it be declared that the patent and/or the Trade mark and/or all intellectual property rights in respect of the invention are held for and on behalf of the Plaintiff in such share or upon such trusts as this Honourable Court shall direct.
 3. ...
 4. An account of profits.
 5. Further or alternatively an enquiry as to damages."
8. The proceedings only achieved some momentum when Pumfrey J on 8th March 1999 ordered the trial of a preliminary issue on the question whether the parties had a partnership and, if so, what the assets of the partnership were and the basis on which they should be distributed if the partnership had come to an end. That preliminary issue was due for trial by Pumfrey J himself (in Preston) on 22nd June 1999. On the morning of the trial the parties asked for time in which they could negotiate. Naturally Pumfrey J afforded them such reasonable time as they might require. After four hours of such negotiations they were able, at 2.00pm or so, to produce for the judge an agreed order compromising questions of liability to the effect that the patent be assigned to the claimant and the defendants as co-owners, that the second defendant pay half the profits of the business relating to the Checkpoint device from 15th February 1990 to 22nd June 1999, and that an inquiry be taken to determine what such profits were. Paragraph 6 of the order dated 12th July 1999 gave the parties liberty to apply for an order as to the costs of the action. There was at that stage no agreement as to how costs should be determined.

9. At a later date, on 25th May 2000, Pumfrey J stayed the inquiry as to the profits for Alternative Dispute Resolution to take place. That did not assist as such, but by August 2001 the defendants had agreed to pay the claimant (as he was by then) £300,000, of which £50,000 was to be held in a client designated account to await the outcome of any agreement or decision as to the costs of the action. Those costs remained the only matter in dispute and the parties exercised the liberty to apply in relation to the costs granted by the order of Pumfrey J. The application came before Laddie J on 17th September 2001 when (more than two years after liberty had been granted to argue the point) he ordered the defendants not only to pay the claimant's costs, but also that the costs should be assessed on an indemnity basis. A few days later he made a further order for an interim payment. There is now an appeal to this court.
10. Mr Shipley has appeared for the defendants. He recognises that costs are very much a matter for the discretion of the trial judge, but he has three principal criticisms of the judge's conclusion. First, that the judge failed to take on board the importance of the fact, although he did refer to it, that when the claimant served his witness statements for the purposes of the trial of the preliminary issue, it emerged that there had been prior publication of the patent and that it was therefore invalid.
11. Secondly, that the judge overemphasised the end result, namely that the defendant paid £300,000 to the claimant. That was said to be a payment made as a matter of horse-trading in negotiations with a legally aided litigant who had a bottomless pocket in relation to costs without having any risk of paying costs to the defendant. Thus it is said it was not a true or indeed any estimate of the defendants' actual liability.
12. Thirdly, that the judge failed to follow what Mr Shipley called "the tradition" that when a dispute is not judicially resolved the correct order is "no order as to costs". For that he relied on statements in the cases of **R v Holderness Borough Council, ex p James Robert Developments Ltd** (1992) 66 P&CR 46 and **Boxall v London Borough of Waltham Forest**, unreported, decided by Scott Baker J on 21st December 2000.

Alleged invalidity of patent

13. The claimant has not accepted that the patent was invalid, but Mr Shipley submits that there was in the claimant's evidence a good arguable case on any view of invalidity. He sought to make that good by reference to the claimant's witness statements and in particular the statement of a Mr Hilditch in which that gentleman said that the Checkpoint device had been fitted on lorries which had driven on the highway to make deliveries of cement before the patent was applied for on 27th March 1990. The claimant now maintains that Mr Hilditch got his dates wrong. But, said Mr Shipley, that did not emerge as a contention until shortly before the costs hearing in September 2001. As at June 1999 the defendants, said Mr Shipley, were faced with evidence which showed that the patent was invalid and that their joint venture to exploit it was, if that became public knowledge, thus doomed to failure. As he put it, the whole litigation was pointless.
14. The judge dealt with that argument in the following way. At page 6 of the transcript of his judgment, he said this: *"In my view, this submission is of no substance for the following reasons. The question of whether or not a patent was invalid was not an issue in the proceedings. There was an agreement between the parties under which the defendants would market Mr Brawley's development. They did market that development. They made enormous profits from doing so and apparently in breach of what is agreed to have been the profit-sharing arrangement between them, the defendants did not pay over money to Mr Brawley. Mr Shipley says that the fact that the validity of the patent was not an issue in the case is irrelevant. He says that the settlement, when it was arrived at, was in the interests of both parties because neither of them wanted to declare in public that the patent was invalid.*
There are two things I must say about that. First, if there really was a clear, unmistakable case of invalidity, as Mr Shipley would have it, based upon the admissions in the claimant's own evidence, an urgent application to amend the defence to plead invalidity, and indeed an application for judgment on admissions, would have been possible. That was not done; nor was it contemplated. On the contrary, as Mr Shipley makes clear, his clients do not want the patent invalidated because they believe that it is useful to ward off the attention of third parties. Secondly, it seems to me that there is a defect in the logic of the position taken by the defendants. Had they attacked the validity of the patent and it had been held invalid, I do not see how that would have affected their contractual obligation to pay over a percentage of the profits made. Furthermore, if the patents were valid, they would be worth more in the long term than if they were invalid. Mr Shipley's argument is that the defendants entered into the settlement on the basis that the patents were

invalid. It must follow that the alleged invalidity of the patents has already been taken into account in the settlement figure. In my view, however, the most important thing is this. There is no suggestion anywhere that the agreement to share profits is in any way dependent upon the patents being held to be invalid. Patents, until revoked, are valuable. In this case it appears, according to Mr Lewis, the parties agreed that the defendants eventually agreed to pay over one-half of the profits which, according to their pleadings, they accepted that they were obliged to do, and that amounted to £300,000.

In my view, it is simply hopeless to suggest that the correct order for costs here should be an order for costs in favour of the defendants. There is, in my view, no doubt that, objectively speaking, the victor in this action has been Mr Brawley, who has belatedly obtained (what is now described as) the half profits, which he should have obtained some time ago."

15. It can be said (and Mr Shipley has so submitted) that the judge has not given Mr Shipley's point the full weight which is its due. It is not particularly relevant, for example, to consider what would have happened if there had been an urgent application to amend the defence because that would never have in fact happened.
16. However, the essence of the judge's reasoning is that however pointless the litigation over the patent itself might be, it still needed to be decided how the defendants' contractual obligation to pay over 50% of profits should be met. As to that, Mr Shipley says that the defendants always accepted an obligation to pay over 50% of the profits made before the defendants terminated the agreement on 16th December 1996, and he says they had paid the amount due up to that date. That, however, was not enough to conclude the litigation. The claimant said that even as at 16th December 1996 he had not been paid the right amount to date, and that in any event the defendants were in breach in purporting to terminate the agreement on that date so that he was entitled to damages also. That contention of the claimant was reflected both in the agreement made in Preston on 22nd June 1999 that the profits were to be shared up to that date rather than any date in December 1996, and in the material contained in the accountants' reports which entitled, in my judgment, the judge to come to the conclusion that he did. I have in mind in particular Mr Green's report for the claimant at page 266 of bundle one, Mr Gisby's report for the defendants at page 47 and Mr Green's attempt at reconciliation at page 78, providing competing figures at page 84.

Mr Shipley's point on the final figure, said to be a horse-trading figure

17. Once again there may be some little force in Mr Shipley's point that the final figure that was eventually paid to the claimant was a figure which came somewhat out of the air and to which the defendants felt that they had to submit because the claimant was legally aided and could thus litigate without personal risk as to costs. But the fact remains that it was a figure somewhere between the competing figures set out in the draft joint accountants' report, those figures being £118,283 put forward on behalf of the defendants and £407,928, the figure put forward by the claimant. So Mr Shipley's second point resolves itself into a mere shadow of the first point, and in my judgment can carry no more weight.
18. As far as Mr Shipley's third point on the law is concerned, there is in my judgment no tradition in these matters of there being "no order as to costs" merely because a dispute has been settled except as to costs. No doubt if it is truly impossible to say what the likely outcome would have been it is a possible order. But if one looks at the authorities referred to by Mr Shipley one finds that the position is much more precisely expressed. I refer firstly to **R v Holderness Borough Council, ex p James Roberts Developments Ltd**. At page 56 of the report Butler-Sloss LJ said this: *"It is not the function of the courts to make decisions on academic issues of law where there is no dispute to resolve. I have great sympathy with a view as to the undesirability of deciding an important issue in a dispute which no longer exists for the purpose of determining who pays the costs of litigation which has otherwise come to an end. In this case however there are now considerable costs incurred on both sides and, with regret, I cannot see how the court can bar the parties from obtaining a decision as to who should pay those costs. The issue of costs alone may keep litigation alive, see Ainsbury v Millington [1987] 1 WLR 379. The court is not in a position to assess the correct costs order without an evaluation of the prospects of success had the application for judicial review been heard and determined."*
19. In a dissenting judgment but on this point not substantially dissenting from Butler-Sloss LJ, Simon Brown LJ said at page 52: *"I recognise, of course, that costs applications have to be entertained and resolved. But not, I*

would suggest, by litigating the case for all the world as if the substantive issues need to be resolved for their own sake. In my judgment an altogether broader approach should be adopted. One which enables the court in a comparatively short time to decide, and decide moreover without giving a fully reasoned judgment, into which general category of discontinuance the case falls."

20. I pause to observe that that is just what Laddie J did in this case.
21. For my part, I find most helpful the principles which Scott Baker J deduced from the authorities in the case of **Boxall v London Borough of Waltham Forest**. He set out those principles as follows:
*"(i) the court has power to make a costs order when the substantive proceedings have been resolved without a trial but the parties have not agreed about costs.
(ii) it will ordinarily be irrelevant that the Claimant is legally aided;
(iii) the overriding objective is to do justice between the parties without incurring unnecessary court time and consequently additional cost;
(iv) at each end of the spectrum there will be cases where it is obvious which side would have won had the substantive issues been fought to a conclusion. In between, the position will, in differing degrees, be less clear. How far the court will be prepared to look into the previously unresolved substantive issues will depend on the circumstances of the particular case, not least the amount of costs at stake and the conduct of the parties.
(v) in the absence of a good reason to make any other order the fall back is to make no order as to costs.
(vi) the court should take care to ensure that it does not discourage parties from settling judicial review proceedings for example by a local authority making a concession at an early stage."*
22. Laddie J, without being referred to authorities on this matter, evidently thought that the case came within the fourth principle deduced by Scott Baker J, namely that it was a case where it was obvious which side would have won had the substantive issues been fought to a conclusion. He decided that the claimant, having been kept out of the money to which he was entitled for many years, until the settlement of 1999 and indeed until the further settlement of the amount due in 2001, was clearly the overall victor. I, for my part, not only am not minded to say that the learned judge in any way erred in his discretion; I go further and say that the decision reached by the judge is a decision to which I myself would have come. Therefore, as far as the appeal relates to the incidence of costs I would dismiss the appeal.
23. My Lord has already indicated that as far as indemnity costs are concerned, which the judge awarded, that is a matter which will have to be argued on another occasion when the Legal Services Commission will be invited to be present.
24. There remains only the question of an interim payment and, after a certain amount of pressure from the Bench, Mr Shipley said that he did not feel disposed to argue that, if we were against him on the issue of costs, there should be no interim payment. I therefore say nothing about that matter.
25. The judge's order will stand.
26. **LORD JUSTICE MANCE:** I agree.
27. **LORD JUSTICE ALDOUS:** I also agree.

ORDER: (1) appeal dismissed against the order of Laddie J of 17th October 2001, in so far as it ordered the first and second defendants to pay the claimant's costs; (2) the appeal against that part of the order that ordered costs to be assessed on the indemnity basis be adjourned for a further hearing estimated at half a day; (3) the Legal Services Commission be notified of the adjourned hearing and have liberty to appear; (4) the costs of appeal so far as incurred, including today's costs, be paid by the defendants to the claimant; (5) the order of 28th October 2001 be varied so that the interim order of £60,000 be paid within 21 days from today; (6) the £50,000 held by the claimant's solicitors be released to the claimant; (7) detailed assessment of the claimant's Community Legal Services Funding. (Order not part of approved judgment)

MR G SHIPLEY (Instructed by Messrs Gorna & Co, Manchester M2 4NB) appeared on behalf of the Appellants
MR J MELLOR (Instructed by Messrs DLA, Liverpool L2 0NH) appeared on behalf of the Respondent