

20/155/94

**PATENTS ACT 1977**

IN THE MATTER OF  
an application under Section 46(3)  
by Fox Design International Limited  
for settlement of terms of a licence of right  
in relation to Patent No 1503596  
in the name of Dellareed Limited

24/11/94

**DECISION**

Patent number 1503596 ("the patent") in the name of Dellareed Limited ("Dellareed") is dated 13 May 1976 and by virtue of paragraph 4 of Schedule 1 to the Patents Act 1977 its maximum term is extended from sixteen to twenty years. During the period of this extension, licences under the patent are available as of right.

On 5 March 1992, Fox Design International Limited ("Fox Design") applied to the Comptroller for settlement of the terms of a licence of right under the patent, and enclosed a draft licence. A statement and a revised draft licence filed by the proprietor, Dellareed, on 1 June 1992 were followed by a counterstatement from the applicant. Further revised draft licences were filed by the proprietor on 7 December 1992, and by the applicant on 24 March 1994. Evidence rounds followed their usual course, although some of the evidence was filed rather later in the proceedings than is usual. The applicant's evidence comprises seven statutory declarations, four from Mr Fox, who is the Manager of Fox Design, and three from Mr Crouch of Bromhead & Co, his patent agents. The proprietor's evidence comprises nine statutory declarations, six from Mr Sams, who is the Managing Director of Dellareed, and one each from Mr Roberts, Mr Wilson and Mr Mills.

The matter came before me at a hearing on 12 September 1994, at which Mr David Young QC, instructed by Bromhead & Co, appeared as counsel for the applicant and Mr Roger Wyand, instructed by Elkington & Fife, appeared as counsel for the proprietor. For the avoidance of doubt I should perhaps make it clear at the outset that it is the revised draft

licence submitted by the applicant on 24 March 1994 that formed the basis of submissions at the hearing and it is this to which I shall refer as "the draft licence" henceforward in this decision.

As a preliminary matter at the hearing, Mr Young requested leave to cross-examine Mr Sams, especially on matters arising from his written evidence about certain royalty-free licences. Mr Wyand resisted the request on the grounds that it was unnecessary, in particular because the facts relevant to the proceedings were plain on the written evidence. Nonetheless, it seemed to me that the relevance of other licences under the patent was a central issue in this case. I therefore ruled that Mr Sams should be cross-examined on his declarations.

The only points of dispute between the parties concerned the level of royalty to be specified in the licence and the basis on which the royalty should be expressed. As Mr Young summarised it at the hearing, the applicant is asking for a royalty of 4% of the net invoice price which is effectively its turnover in this product exclusive of VAT; the proprietor is asking for 6% on recommended retail price, which Mr Sams equates to some 9% on turnover exclusive of VAT.

The invention of the patent relates to bite indicators for use when fishing with a fishing rod. In a preferred embodiment, the bite indicator comprises a housing located on a plate-form member. A shaft is freely rotatably mounted in the housing and carries a pulley wheel which is located in alignment with a slot at the base of a V-shaped cut-out in the member. In use a fishing rod is located in the cut-out and the fishing line is located partially around the wheel so that any movement of the line, when there is a bite, causes rotation of the wheel. The bite indicator has a bracket whereby it can be clamped to a bank stick or other support rod.

An apertured disc is mounted on the shaft between a first light-emissive diode and a photoelectric transistor, the output from which is connected via circuitry to cause actuation of an audio indicator and a second light-emissive diode, with a battery providing the power supply. In use, when the line is moved indicating a bite, the wheel is rotated so rotating the apertured disc, and hence interrupting the light beam from the first diode to the transistor to

produce electrical signals which are conditioned and actuate the audible and visual indicators. The indications are given at a rate proportional to the rate of movement of the line.

In an alternative embodiment, the audio indicator and the battery are contained in a separate housing to reduce the weight of the indicator and to allow more than one indicator to be used. In this case different circuitry is used, and the disc and transistor are respectively replaced by a rectangular member and a photo-darlington arrangement. Although both embodiments show photoelectric sensing, it is envisaged that other sensing could be utilised, for example magnetic or electro magnetic. The arrangements shown in the specification are said to have the advantage that not only do they give an indication of a bite but also the rate at which the line is being taken.

Claim 1, which is the only independent claim apart from two omnibus claims, reads:

"A bite indicator comprising a support means including a fishing rod support means arranged for locating a fishing rod relative to the support means, in use, a pulley wheel freely rotatably mounted to the support means adjacent the fishing rod support means such that the fishing line of a rod located in the fishing rod support means will pass at least partially around said pulley wheel, and a member mounted so as to be moved by movement of the pulley wheel and forming part of a photoelectric, magnetic or electro magnetic sensor for providing a signal indicative of any such movement and the rate thereof".

As Mr Young reminded me at the hearing, the law to be applied in licence of right cases has been settled in several leading authorities, in particular in *Allen & Hanburys Limited's (Salbutamol) Patent* [1987] RPC 327 and *Smith Kline & French Laboratories Limited's (Cimetidine) Patents* [1990] RPC 203. It is clear from the Court of Appeal's judgments in these cases that in exercising his powers under the Act the Comptroller must secure, among other things, that, in the words of section 50(1)(b), "the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration having regard to the nature of the invention". It is settled law that by "reasonable remuneration" one means the royalty that would be agreed between a willing patentee and a willing licensee, having regard to the other

terms of the proposed licence. It is also established that several methods may be used in fixing reasonable remuneration for the use of an invention in a licence of right case. However, at page 236 of the *Smith Kline* case, Lord Justice Lloyd stated:

*"Comparable Royalties*

For my part I have no doubt that where close comparables exist, they provide by far the best and surest approach. There is no better guide to what a willing licensor and a willing licensee would agree than what other licensors and licensees have in fact agreed in comparable cases. Whether a case is comparable or not is, of course, a pure question of fact for the decision of the Comptroller".

Later, at page 239, he added:

"The object of the comparability exercise is to find the closest possible parallel. If there is an exact parallel, there is no point in looking any further. If there are slight differences, an allowance may be made".

Thus, where comparison between the licence sought and existing licences is not exact, the practice has been to adjust the royalty to take account of the differences.

Since the evidence and argument put forward in the present case were based on comparisons with previous licences and negotiations, and no other method for calculating the appropriate royalty was advanced by either party, that is the method I shall adopt. However, as Mr Young cautioned, I do need to consider very carefully whether those licences and negotiations are an acceptable guide, and if so, whether they should be discounted and by how much.

Mr Young also reminded me that, following decision of the House of Lords in the case of *Gist-Brocades* [1986] RPC 203, I must determine what would be a reasonable royalty having regard to all the evidence up to the date when I settle the licence.

It has emerged from the evidence and correspondence, in a piecemeal fashion I might say, that apart from the present draft, six licences under the patent have in various circumstances been negotiated. They are between Dellareed and, respectively, Sundridge Tackle Limited ("Sundridge"), Mr John Roberts, Keenets Limited ("Keenets"), DAM (UK) Limited ("DAM"), Lymington Leisure Lines ("Lymington"), and Mr Steve Neville. I turn first to the agreement between Dellareed and Sundridge. Copies of this agreement were made available by the proprietor's agents under cover of a letter of 26 August 1994 under the provisions of rule 93(4)(c) only to me and the applicant's legal advisers. Most of the content of the agreement thus remains not open to public inspection, apart that is from those items referred to in open evidence, correspondence, or at the hearing. However, I believe that for the purposes of explaining the reasoning behind my decision I need not refer here to matters outside the public domain.

According to Mr Sams in his declaration of 1 December 1992, the bite indicator covered by the patent was first marketed in 1978 under the trade mark "OPTONIC" and has been sold under that name ever since. From 1978 to 1988 the "OPTONIC" bite indicators were manufactured and sold by his firm. In 1988 an agreement was reached with Sundridge for them to make and sell the "OPTONIC" indicator. The agreement, he says, involved an exclusive licence under the patent, an exclusive licence to use the trade mark "OPTONIC" and a consultancy and repair agreement. He adds that the agreement with Sundridge has now been terminated by Dellareed and that it is now (that is, at the time of the declaration in December 1992) the intention that Dellareed will reassume manufacture and sale of the "OPTONIC" indicator. Under cross-examination, Mr Sams indicated that the termination or otherwise of the agreement with Sundridge is still to be decided by the Courts. In any event, the licence under the patent cannot now be exclusive in view of the operation of the licence of right provisions in the Act, and also of the grant of other licences that has taken place, as I shall come to.

Substantially as explained in the proprietor's agents' letter covering the copy of the Sundridge agreement, there is a so-called "main agreement" dated 28 September 1988 (which is before licences of right became available). This main agreement is between Dellareed and Sundridge, and grants Sundridge certain rights in exchange for the payment of a royalty.

Associated with this main agreement is a so-called "consultancy and repair agreement" of the same date.

From Mr Sams declaration of 1 December 1992, the royalty paid by Sundridge under the combined agreement was 22% of turnover, up to a turnover of £750,000. It is openly stated in the proprietor's agents' letter of 26 August 1994, and was repeated at the hearing, that this figure of 22% is the sum of 12% from the main agreement and 10% from the consultancy and repair agreement. This is borne out by the agreements themselves.

At the hearing, Mr Wyand argued that the consultancy and repair agreement cannot be unbundled from the main agreement and ignored. He pointed out that the consultancy and repair agreement contains no obligation to carry out new research and development for instance, and argued that there are various tax reasons why one may structure agreements in a particular way. He contended that to try to dissect the agreements with hindsight and to say "we will take that 12% out of there and none of the rest is at all relevant" is not legitimate. I find myself unable to accept this argument. While there may indeed have been particular reasons for structuring the agreements in the way they are, those reasons are not apparent from the evidence before me. I consider therefore that it is right to take the agreements at face value, as Mr Young urged I should. On doing so, it seems clear to me that the consultancy and repair agreement has no relation to the matter of the licensing of the patent in suit, and hence that for the present comparative purposes, it and in particular the royalty for which it provides should be discounted. Mr Young submitted at the hearing that the ceiling for the royalty in the present case should be 12%, if calculated on the basis of the licensee's turnover, this being the figure in the main Sundridge agreement. Subject to changing "ceiling" to "starting point", I accept Mr Young's submission.

Looking more carefully then at the main agreement alone, it is important to be clear about the rights that were granted to Sundridge in exchange for the payment of the 12% royalty, so that its true comparability with the present draft licence can be determined. The main agreement is confidential, but it is sufficient to record here that it covers patents additional to the patent in suit, and it allows for the use of the proprietor's trade marks.

Under cross-examination by Mr Young, Mr Sams agreed that he puts value on all his trade marks. It is also notable that licences granted to Keenets and DAM, to which I shall refer in more detail later, explicitly state that they do not extend to the use of Dellareed's trade marks "OPTONIC", "MAGNETONIC" and the "D"-logo. The present draft licence likewise does not extend to the use of Dellareed's trade marks, whereas the Sundridge agreement gives an exclusive licence to apply them to specified products.

Secondly, the Sundridge agreement applies to a number of patents and patent applications, and not merely to the one patent the subject of the present proceedings. Thirdly, the Sundridge agreement covers a range of products, and finally, the Sundridge agreement provides for Dellareed to make available technical assistance, including know-how, to Sundridge, again something absent from the present draft licence.

Mr Young argued that since the Sundridge agreement includes an exclusive licence to use Dellareed's trade marks, covers patents other than the patent in suit, and provides for technical assistance to be given, none of which are included in the present draft licence, the royalty rate in the present case should be substantially less than the 12% of turnover in the Sundridge agreement. He suggested that at least half of the 12% could be attributed to the exclusive trade mark licence, so that overall, bearing in mind the other differences, one is coming down to a figure of 5% for the licence under the present patent. Mr Wyand acknowledged the differences between the scope of the two licences, including that the Sundridge agreement covers more than one product, indeed a range of them. He pointed out, rightly in my view, that no enquiry had been made as to how far any of those other products may or may not be covered by the patent in suit. He also noted that the draft licence is limited by the specific exclusion of the use of a photo-electric sensor, although he says that this makes no difference to the appropriate royalty. In short, he thought that Mr Young's attribution of the 12% royalty to different items was not legitimate. Nonetheless, I am persuaded to accept the thrust of Mr Young's argument on this point, and in the absence of more detailed evidence on the value of individual elements of the Sundridge licence, consider that about half of the 12% is attributable to the patent in suit.

Of the remaining licences, Mr Sams has stated in evidence, for example in his declaration of 19 July 1994, that Lymington, Keenets and DAM each agreed to take a licence under the patent at a royalty rate of 6% of the recommended retail price. He said that they genuinely agreed without inducement to pay that royalty in *bona fide* arms' length negotiations and that to the best of his knowledge and belief all would have executed licence agreements embodying the 6% royalty rate. He added that at the time of the genuine commercial negotiations his company had every intention to conclude licence agreements and collect royalties at the 6% rate.

Taking first the Lymington situation, at paragraph 11 of Mr Fox's declaration of 7 June 1994 reference is made to an exhibited letter from Mr Cavell of Lymington to Mr Sams relating to a draft licence. The draft licence under discussion was apparently an exclusive licence for a so-called Eurocasting bite indicator with a royalty set at 6% plus VAT of the recommended retail price. (As will be seen, Eurocasting is a company based in France.) However, Mr Fox goes on to say that on writing to Mr Cavell, the manuscript reply he received, exhibited at CRF5 to the declaration, suggested that Lymington had ceased trading and that no trade in the fishing bite indicators was taken up, and that no stock was obtained.

In his written evidence Mr Sams indicated, as I have said, that a royalty-free licence was given to Lymington. However, under cross-examination by Mr Young at the hearing he admitted that this had been wrong. He clarified the point by saying that Lymington had asked him for a licence but that he had heard no more from them. Although they apparently agreed to the royalty rate of 6% of recommended retail price they never took it up or paid Dellareed any money. It appears to me that no comparability exists between the Lymington situation and the present case, if only because no licence was ever concluded with Lymington, and that I need consider it no further.

Taking next the Keenets situation, Mr Young took me to Mr Fox's declaration of 29 September 1993, in paragraph 7 of which Mr Fox says that Keenets was selling bite indicators which it was importing from Eurocasting SA of France. In paragraph 8, which Mr Young considered of some importance, Mr Fox states:



"It is my understanding that Eurocasting SA manufacture the bite indicators which they sell to Andrew Reade [of Keenets], in the Far East. Dellareed do not have a corresponding patent in France, so that Eurocasting SA is able to make and sell its product without any royalty payment due to Dellareed. Keenets Limited are therefore able to purchase the bite indicators at a relatively low price, without incurring any tooling up, or production costs, and then sell their indicators on to the United Kingdom market".

Mr Young then took me to Mr Fox's declaration of 17 August 1994. Paragraph 4 refers to exhibited photocopied pages from a French brochure produced by Eurocasting for the years 1993/1994 which show "SONARM", "TYPHON", and "MISTRAL" bite indicators sold by them. Paragraph 5 refers to an exhibited extract said to be from the Keenets catalogue for April/May 1994 advertising "TYPHOON" and "MISTRAL" bite indicators which can be seen to be substantially the same as indicators advertised by Eurocasting as their "TYPHON" and "MISTRAL" respectively. There is a further exhibit which is a photocopy said to be from the Keenets 1993 brochure in which the "SONARM" indicator from Eurocasting is advertised. This advertisement includes the legend "IMPORTED UNDER LICENCE OF RIGHT PAT No. 1503596".

The gist of Mr Young's argument was that Keenets' concern in its negotiations with Dellareed was to obtain a licence enabling it to import these three products ready-made from Eurocasting for sale in the United Kingdom. This meant, according to Mr Fox, that Keenets did not therefore incur tooling or manufacturing costs, and in the absence of any financial risk as a consequence did not need to invest heavily in advertising or promotion costs. He contrasted this with the applicant's situation in which it has invested heavily in research and development and tooling-up.

In regard to DAM, Mr Sams' assertions in his declaration of 19 July 1994 are corroborated by the exhibit to his declaration of 7 June 1994, which is a letter from DAM's patent agents to Dellareed's conveying among other things DAM's acceptance of a royalty rate of 6% of the *bona fide* net recommended final retail price. Page 2 of the letter states:

"Our clients [DAM] also point out that they will be importing a product made exclusively for DAM, and bearing that name. DAM (UK) have exclusive rights to the product in this country so there is no danger of other importers."

Mr Young coupled this evidence with that of Mr Fox in his declaration of 17 August 1994, where he reports a recent telephone conversation with Mr Burn, who had been the Managing Director of DAM at the time of the negotiation of the licence. Among other things, he is said by Mr Fox to have confirmed that at the time DAM had intended to buy the Eurocasting product corresponding to Dellareed's "OPTONIC" indicator, being the product made under the patent in suit. Since a substantial margin was potentially available on the product, between the price offered by Eurocasting and the potential retail price, he believed that a royalty rate between 4% and 6% of the retail price was commercially realistic in these circumstances. This was particularly so in the light of DAM's related operations in Europe.

Thus Mr Young argued that the DAM and Keenets situations were essentially the same. He contended that both were introducing into the market the same product and having the same sort of considerations at that early stage as to why they could live with 6% (based on recommended retail price), essentially because as importers they had no investment and low risk. The bite indicators were being sold to them relatively cheaply, and they had decent margins in selling the product. I am not persuaded that the evidence fully supports all these assertions. I am however prepared to accept that the licence negotiations with DAM and Keenets were conducted at arms-length, and in that situation one might expect that the agreed royalty rate (6% of the recommended retail price) would take account of the relative ease with which those licensees could import established products, as compared with the effort needed to establish a UK manufacturing operation. However I have no evidence on the relative costs of the two kinds of operation, and I therefore conclude that the DAM and Keenets negotiations are a less reliable guide than the Sundridge licence.

In any event, as matters turned out a licence at that 6% rate was never concluded with either Keenets or DAM. As Mr Sams admits in his declaration of 19 July 1994, the licences Dellareed finally granted to Keenets and DAM were royalty-free. Mr Sams suggests that it was his frustration at the apparent inability of his solicitors to act promptly on his instructions

to produce the correct licence agreements between his company and the parties which had agreed the 6% rate, and his subsequent disillusionment with the matter of licensing, which led him to write to the parties granting royalty-free licences. In his declaration of 17 August 1994 Mr Fox suggests, on the basis of telephone conversations he had had, that in relation to the DAM licence Mr Sams' decision not to pursue any royalties followed grief he was having with Sundridge. Although Mr Sams was cross-examined on the events surrounding the grant of these licences, I find it difficult to accept that we got to the bottom of why a company like Dellareed, which has apparently been extensively involved in patent litigation, should grant royalty-free licences in the circumstances outlined by Mr Sams.

What does seem clear is the fact that licences were granted to Keenets and DAM which were royalty-free, rather than at 6% of recommended retail price. Those licences are exhibited to Mr Fox's declaration of 7 June 1994. The Keenets licence is dated 26 February 1993, the DAM one 2 March 1993. They take the form of respective letters from Dellareed. In each letter, the licence is "to manufacture, import, export and distribute any product using the know-how of" the patent. A royalty-free licence is also granted for the use of Dellareed's "copyright in the design of the products". It is made clear that the licences do not extend to the use of Dellareed's trade marks "OPTONIC", "MAGNETONIC" and the "D"-logo.

I turn now to the licence to Mr John Roberts. As Mr Sams testifies in his declaration of 1 December 1992, an application for a licence of right was filed at the Patent Office by Mr Roberts. The licence was, however, agreed without the Comptroller having to settle its terms, a 6% royalty on the recommended final retail price being accepted by Mr Roberts. As Mr Sams points out, a copy of the licence, which is dated 21 July 1992, is on file at the Patent Office.

In his evidence, Mr Fox reports several telephone conversations he had had with Mr Roberts between September 1993 and August 1994. Mr Fox understood Mr Roberts to say that he did not have a product under the patent which was potentially marketable, and that no product under his licence had ever been made or sold. While he might like to make a bite indicator under the patent, Mr Roberts was reportedly sceptical that he would now put a product on the market in view of the many inexpensive bite indicators now in place which

were made in accordance with the patent. Mr Fox reports that Mr Roberts said that in July 1992, when his licence with Dellareed was agreed, 6% of the retail price was a reasonable price to pay for Dellareed's product which was a good one and with no competing products on the market.

Mr Fox also alleges that, in his conversation of August 1994, Mr Roberts confirmed he now had a royalty-free licence from Dellareed under the patent. However, in the proprietor's evidence before me there is also a declaration of 24 August 1994 by Mr Roberts himself, in which he denies saying to Mr Fox at any time that he had a royalty-free licence from Dellareed. He adds that to his mind the royalty rate he agreed with Dellareed, namely 6% of recommended retail price, is a fair one in the circumstances. Clearly there is a conflict between the evidence of Mr Fox and Mr Roberts over what may have been said about a royalty-free licence. However, I have before me no corroboration of the existence of any royalty-free licence to Mr Roberts. What I do have is a statutory declaration by Mr Roberts that none exists, as well as Mr Sams' testimony under cross-examination that he had not discussed the terms of that licence after July 1992 when the 6% rate was settled. Consequently, I conclude that Mr Fox is mistaken, and that the subsisting licence is that on file at the Patent Office in which a royalty rate of "6% of the *bona fide* net recommended final retail price exclusive of VAT" is specified.

That said, I recognise that the licence has never been worked and therefore that it has little value as a comparable.

The final licence which has been referred to in these proceedings is that granted to Mr Steve Neville. The existence of this licence was not volunteered by the proprietor. Rather it was a letter from the Patent Office of 16 August 1994 which noted that no reference had been made to a royalty-free licence to Mr Neville associated with an order of the High Court dated 13 July 1993. This licence is on file at the Patent Office and recorded in the Register of Patents. It grants Mr Neville a royalty-free licence "to make, have made on his behalf, dispose of, offer to dispose of, use, import or keep products as specified in any of the claims of the patent and to do any other act which would otherwise be restricted by virtue of the said patent".

In a letter of 25 August 1994, the proprietor's agents stated that Mr Sams had not referred to the licence to Mr Neville because Mr Sams did not perceive it as a proper licence or as being relevant in these proceedings. The licence, the letter explains, is part of a Court order, agreed to by Dellareed, so as to terminate an infringement action started in 1986. The letter states that there is no specific licence agreement signed by Dellareed and Mr Neville - the licence is embodied in a short paragraph in the schedule to the Court order - and that in fact the licence is merely a form of words to confirm that Dellareed, having withdrawn the infringement action, would not start fresh infringement proceedings against Mr Neville. The letter goes on to say that the patentee's evidence has concentrated on the terms of licences which have been voluntarily agreed by third parties in genuine commercial negotiations, in order to provide relevant "comparables". They argue that it is self-evident that any licence agreed at the end of an infringement action will not reflect a normal commercial negotiation.

While I accept that the circumstances in which the licence granted to Mr Neville were quite different from those in which a willing licensee and licensor might be engaged, it is I believe nonetheless relevant to the present proceedings that such a royalty-free licence exists.

Indeed, this is the crux of one of Mr Young's arguments. In addition to the Sundridge licence, which if taken in isolation I have found would lead me to prescribing a royalty rate in the present case of about 6% of turnover, there have been granted since the Sundridge licence royalty-free licences to DAM, Keenets and Mr Neville. Mr Wyand argued that the royalty-free licences were not relevant and that there was no evidence to show that they have affected the market position. While I accept that the evidence on the market position is thin, it is nonetheless my view that the existence of such licences would clearly be expected to affect the market environment in which the hypothetical willing licensee and licensor would today be negotiating. In short I would expect them to inject competition into the market and hence to depress the price, and the market share, of other operators, including the applicant in this case. I therefore believe it is proper for me to take account of these licences and to discount the 6% figure I mentioned earlier to 4%.

I might say at this point that Mr Young contended that I should go further than this and award the applicant a royalty-free licence. He did so on the same basis as had Mr Fox in

his declaration of 7 June 1994, namely that the proprietor had, at least in the DAM and Keenets cases, freely granted royalty-free licences, and that these should therefore be adopted as strict comparables in the present case. This, he suggested, would lead to a so-called "level playing field", an expression used initially in fact by Mr Sams. However, I do not accept that I should be justified in going that far. In reaching a decision on the royalty level, I have to balance a number of considerations, not least that the proprietor should receive reasonable remuneration. Whatever the proprietor's motives may have been in granting DAM and Keenets royalty-free licences, it is not clear to me that I should apply that figure here.

A matter about which there has also been some debate in the evidence and at the hearing is the value of the product or products covered by the patent. It is settled law that in licence of right cases the validity of the patent is as such not a relevant issue when looking at its commercial value. Thus, while there have been certain assertions made in the applicant's evidence casting doubt on the validity of the patent, Mr Young did not air them at the hearing, and it is right that I should ignore them.

In relation to the commercial value of the invention which is the subject of the patent to be licensed, Mr Wyand referred me to an unreported decision of the Hearing Officer in the case of *Fairfax (Dental Equipment) Limited's Patent*, which concerned a dental pin. On page 7 of his decision, the Hearing Officer commented that in that case "the invention is of high commercial value and one for which a willing licensee would be prepared to pay a premium".

Mr Wyand's thesis was that the same applies here. He drew my attention to the declarations of Mr Wilson, a professional angler since 1970, and of Mr Mills, an avid angler for more than forty years and a writer on angling. Mr Wilson testifies that "the "OPTONIC" ... is of great significance ... a unique and tremendous advance in bite indication ...". Mr Mills states that "it was a totally new concept in bite indicators" which "solved numerous problems". He adds "I was then, and remain to this day, extremely impressed by the revolutionary concept of the "OPTONIC"". Mr Wyand also took me through exhibit FEJS2 to Mr Sams' first declaration. This contains extracts from various publications concerned

with angling. Mr Wyand quoted from, among others, the issue of "Tackle & Guns" of August 1978, which at page 31 reads:

"Specimen hunters, like carp fanatics, will love it, particularly as the speed at which the sensor reel revolves will give them a signal telling how fast the line is being taken out".

This, said Mr Wyand, was the crux of the success of the invention. It gives an indication of the speed at which the line is being pulled out; that was the breakthrough that this invention made.

Mr Young noted that these exhibits to Mr Sams' declaration date from 1978, when the product first came on the market, to the early 1980s. Today, he observed, there are other types of bite indicator on the market. He also suggested that there is no evidence that the bite indicator of the patent is something out of the norm for this field today. I note that in his first declaration, Mr Sams states that since 1978 more than 400,000 "OPTONIC" bite indicators have been sold. How this figure breaks down over time, especially in recent years, is not clear. What is clear, from exhibited brochures, price lists and advertisements, is that there is an active market for this type of bite indicator. Of course, if truly comparable licences could be found, they would automatically take account of the commercial merit of the invention, but I understood Mr Young's point to be that the potential product was of high commercial value when the Sundridge licence was agreed, but is now relatively commonplace. The contrary argument is that a well-established product can command a higher price in the market-place. On balance I do not consider that considerations of commercial value call for any adjustment of the figure of 4%.

Mr Young also took me to three agreements exhibited to Mr Crouch's declaration of 9 September 1994. The first exhibit is a non-exclusive licence granted by Fox Design to Sundridge in August 1991 for the manufacture and sale of a chair which is the subject of a registered design. The royalty payable under this licence is 5% of the *bona fide* net invoice price. The second exhibit is an assignment of a patent application for a "catapult" from a Mr Elliott to Fox Design dated November 1991. The royalty payable, apart from a

downpayment of £1, is expressed as 5% of the *bona fide* net invoice selling price. The third exhibit is also an assignment, this time of two patent applications in respect of "improvements to alarms", from a Mr Johnson to Fox Design, dated November 1992. The royalty payable in this case, apart from a downpayment of £1500, is 3% of the *bona fide* net invoice wholesale selling price. Mr Young also referred me at this point to paragraph 5 of Mr Fox's first declaration, in which these and other agreements involving Fox Design are mentioned.

Mr Young argued that these three agreements amounted to "comparables" to the present case. The licence was a non-exclusive one for an item selling for about the same price as a bite indicator, he asserted. The two assignments were in effect the equivalent of exclusive licences under certain terms. Mr Wyand countered in regard to the chair licence that a registered design is not as strong as a patent. As to the two assignments, he noted that these were in respect of patent applications and hence of unproved and undeveloped inventions. He proposed that these three agreements suggested that the royalty in the present case, which is for a granted patent in a successful invention, should be rather more than the 3% to 5% at which they are fixed. I accept, at least in respect of the amount of royalty payable, Mr Wyand's submission that these three agreements are not comparable to the present case. They do not therefore disturb my earlier conclusion that 4%, if based on turnover, is appropriate here.

This brings me to the basis on which that amount of royalty should be expressed in the present licence. It is convenient to take first, but from a different viewpoint, Mr Crouch's comparables which I have just considered. Mr Young said that they were important because they were all based on turnover. However, since they are all agreements involving Fox Design, it could be argued, although Mr Wyand did not, that the royalty is expressed in them in this way because Fox Design favour it, rather than because it is the most appropriate way or the most common in the angling field. I am not therefore persuaded to accept a formulation based on turnover on this evidence alone.

As in relation to the amount of the royalty, it seems to me that the closest comparable on the question of the basis of its calculation is the Sundridge main agreement with Dellareed. As



Mr Young pointed out, the Sundridge main agreement contains a royalty clause based on turnover: specifically it is "a percentage fee of Turnover at a rate of 12%". Mr Wyand argued that because one does not know what Sundridge's practice is, that is how many of its sales it makes direct, whether it acts as distributor itself and so on, it is difficult to make a comparison on this point. I do not accept this as relevant. Other things being equal, I believe a similar formula would be applicable in the present case.

Mr Wyand argued strongly, as Mr Sams has in his evidence, that the formulation in the present case should be based on the licensee's recommended retail price. He commented that this was what Mr Sams meant in his evidence by a level playing field: that one should look at the price that is being charged to the consumer. He referred me again to the decision of the Hearing Officer in the *Fairfax* case, reading me two paragraphs from page 13 of the decision, which include the sentence:

"To set the royalty rate solely on the price at which the applicant sells to his distributor would mean that the distributor or those further down the chain would benefit from the sales of the invention without contributing anything by way of a royalty to the patentee".

Mr Wyand commended this as a very cogent statement as to the logic for fixing a royalty on the retail price rather than the wholesale price. In reply, Mr Young warned against getting any principle out of this case other than that one has to look very much at the facts of each case. With respect to Mr Wyand, I agree with Mr Young that the circumstances in the *Fairfax* case were somewhat different from the present ones, in that the two parties in that case adopted very different business methods and bases for presenting their figures. Also, in the quoted passage I believe the Hearing Officer was talking about the royalty rate, meaning the amount of the royalty rather than how it should be calculated. He was not saying that a licensee's wholesale price could not form a suitable basis for expressing a royalty the amount of which had already been determined.

Mr Young contended on the basis of Mr Fox's declaration of 17 August 1994 and Mr Sams' of 24 August 1994 and their exhibits that it is the norm for bite indicators, among other

angling items generally, to be the subject of special offers and to be sold below the recommended retail price. He said it would therefore be quite wrong in principle to base a royalty on the recommended retail price, particularly in the light of decided cases which make it clear that one has to come to a certain figure, certain so far as the licensee is concerned. Mr Wyand also took me to the exhibited price lists and advertisements to show that Fox's own bite indicators, in particular the "MICRON SX", tend not to be discounted from their recommended retail price. In any event, he contended, it was irrelevant if in fact a distributor sold below the recommended retail price, as Fox should budget for the recommended retail price over which it does have control.

For my own part, it seems to me likely that discounting, at least in some sectors of the market, does occur. However, that in itself is not an overwhelming argument against formulating the royalty in terms of recommended retail price. Equally though Mr Wyand's submissions do not persuade me that the formulation adopted in the closest comparable, namely the Sundridge agreement, to which Dellareed was freely a party, is inappropriate here. I therefore find that the royalty in the present case should, as there, be couched in terms of the licensee's turnover.

I might at this point note that in a declaration of 7 April 1994 Mr Crouch drew attention to a number of patent licences in the mechanical field with which he had been involved. However, since none lies in the angling field, I do not believe they are of any practical assistance to me as comparables. In the same declaration, he draws attention to the fact that 5% of the licensee's selling price has often been a benchmark figure in licence of right proceedings before the Comptroller. Mr Young did not seek to argue this point though, and since a number of comparables have been cited in the proceedings, I do not consider I need to resort to deliberations based on that benchmark figure.

In summary, therefore, on the question of the royalty I find that it should be set at 4% of the licensee's turnover. By "turnover" is meant of course turnover in products made under the patent based on the applicant's selling price. I have amended clauses 3.2 and 3.3 of the draft licence to reflect this finding using a form of words based on both the original draft and the relevant part of the comparable Sundridge licence.

As I said earlier, there were several other matters concerning the terms of the licence which had not been settled between the parties before the hearing, but which were agreed there. The first of these concerns the identity of the parties to the licence, and indeed who should properly be regarded as the applicant in this case. Although the application was made by Fox Design, it emerged during the proceedings that Fox Design is a company which holds a number of intellectual property rights for angling equipment, but that it is another company, Fox International Group Limited ("Fox International"), which manufactures and sells that equipment. It was Fox Design's intention that manufacture under the licence would be conducted by Fox International. In the course of the proceedings, Fox Design therefore sought to have Fox International included in the licence as its sub-licensee. Dellareed took objection to this proposal. At the hearing, Mr Wyand agreed that the proprietor would not resist an application to amend the name of the applicant in these proceedings. His position was that he did not mind Fox International doing the manufacturing but wanted them to be a party to the agreement. Mr Young and Mr Wyand for the parties therefore agreed that Fox Design and Fox International should be full joint licensees to Dellareed. There was some discussion at the hearing about how the recitals and clauses 1 and 2 of the draft licence should be altered to take account of this point. There are also implications for other parts of the draft licence, as indeed has been pointed out since the hearing in a letter dated 14 September to the Patent Office from the proprietor's agents. I have amended the draft licence to take appropriate account of this point. In particular, as well as adding suitable references to Fox International, I have inserted "joint" in clause 1.1.

The second matter concerns the proprietor's address. Mr Wyand indicated that it should read "3 High Street, St Lawrence, Ramsgate", and not as given in the draft licence. The third matter was about how the licence should deal with the payment of VAT. It was agreed between Mr Young and Mr Wyand that clause 3.5 of the licence appended to the Hearing Officer's decision in the *Fairfax* case provided a suitable model which could be incorporated into the draft licence as it stood. With respect, I feel that the references in that clause to "Licensee" and "Patentee", while appropriate in the context of that licence, do not sit so comfortably with the language of the draft licence. I have therefore incorporated the substance of that clause as the parties agreed, but have adjusted the wording to refer to the names of the parties, in line with the form of the draft licence.

As I have said, the terms mentioned in the previous two paragraphs were agreed by counsel during the course of the hearing, and I have recorded what they agreed rather than determined those terms myself. If the settled licence does not accurately express the parties' agreement in these respects, they are at liberty to apply in these proceedings to have those particular terms settled by the Comptroller.

Although the parties were not in dispute as to any other terms of the draft licence, I believe it is my duty as Hearing Officer to satisfy myself that they contain nothing which, to my knowledge, is unlawful and that they are appropriate to a licence settled by the Comptroller. Having reviewed the draft licence, as amended to reflect my findings, I can see nothing unlawful. However, I believe recitals (b) and (c) should in the interests of certainty of interpretation be worded as similarly as possible. I have therefore substituted "interested in" for "desirous of" in recital (c). In recital (a), I consider "agrees" should read "agree" for internal consistency. Finally, the witnesses to the seals of Fox Design and Fox International should give their names as well as their addresses, so I have inserted this too into the draft licence.

It is usual in licence of right cases for the licence to take effect from the date of the Hearing Officer's decision: the House of Lords decided in *Gist-Brocades* [1986] RPC 203 that terms settled by the Comptroller could not take effect earlier than the date of the decision. However, as Mr Wyand pointed out, it has been agreed between the parties, and it is reflected in clause 1.1 of the draft licence, that the effective date of the licence is going to be 13 May 1992. I do not understand the *Gist-Brocades* decision to prohibit such a term and the effective date therefore stands.

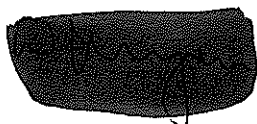
Taking into account my findings in all the matters set out above, I order the proprietor, Dellareed Limited, to grant to the applicants, now Fox Design International Limited and Fox International Group Limited, a licence under the patent in the form appended to, but which forms part of, this decision.

I note that in his declaration of 7 June 1994 Mr Fox asks for costs on the grounds that Mr Sams had not referred in his evidence up to that time to the royalty-free licence granted

to DAM. This point is taken up in the applicant's agents' letter of 9 June 1994. In the proprietor's agents' letter of 14 June 1994, this notion is rejected and it is suggested that, if anything, the applicant should be liable for the increased costs of the proprietor due to the repeated late filing of evidence. However, it has become customary in licence of right cases settled under section 46(3) for the Hearing Officer not to award costs, and I do not consider the circumstances in the present case to be sufficiently unusual to warrant any departure from that practice. I therefore make no award.

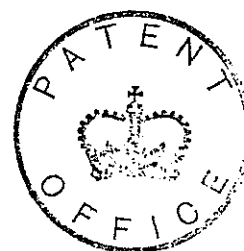
This being a substantive matter, the time within which an appeal may be lodged is six weeks from the date of this decision.

Dated this 24<sup>th</sup> day of November 1994

A dark, rectangular redaction mark covering the signature of the Superintendent Examiner.

W J LYON

Superintending Examiner, acting for the Comptroller



**THE PATENT OFFICE**

## LICENCE

This licence made the                      day of

### BETWEEN

Dellareed Limited, a British company of 3 High Street, St Lawrence, Ramsgate, Kent ("Dellareed")

AND

Fox Design International Limited, a British company of Oakland House, Rettendon Common, Essex CM3 5HQ ("Fox Design") of the second part

AND

Fox International Group Limited, a British company of 56 - 58 Fowler Road, Hainault Industrial Estate, Hainault, Essex IG6 3UT ("Fox International") of the third part.

### WHEREAS

- (a) Dellareed are the proprietors of British Patent No 1503596 ("the patent") and agree to license Fox Design and Fox International under the patent upon the terms and conditions of this agreement, and
- (b) Fox Design are interested in acquiring a licence under the patent, and
- (c) Fox International are interested in acquiring a licence under the patent.

### IT IS HEREBY AGREED

#### 1. GRANT AND EFFECTIVE DATE

- 1.1 Dellareed hereby grant to Fox Design and Fox International a non-exclusive joint licence under the patent to manufacture, distribute and sell Bite Indicators made in accordance with any claim of the patent ("the product") in the United Kingdom, except only that this grant excludes the manufacture, distribution and sale of indicators having sensors which are photo-electric, and the effective date of the licence is 13 May 1992.

#### 2. ASSIGNMENT

- 2.1 Fox Design and Fox International agree not to assign this licence, or to grant sub-licences, or to sub-

contract manufacture.

3. ROYALTY

- 3.1 Fox Design and Fox International shall pay to Dellareed a royalty on all the product manufactured, sold or otherwise disposed of by them.
- 3.2 The royalty shall be a sum equal to a percentage fee of turnover in the product at a rate of 4%.
- 3.3 For the purposes of 3.2 above the turnover shall be calculated on the basis of the price of the product as sold by Fox Design or Fox International in accordance with ordinary commercial principles.
- 3.4 If any sums due to Dellareed from Fox Design or Fox International are not paid on the due date then Fox Design or Fox International shall pay interest on the sums from time to time outstanding from the date that the same became due until actual payment at a rate of 2% above the base rate from time to time of Barclays Bank Plc.
- 3.5 All sums payable hereunder are exclusive of Value Added Tax which, insofar as applicable, shall be paid by Fox Design or Fox International at the rate ruling at the relevant tax point on receipt of Dellareed's tax invoice.

4. BOOKS OF ACCOUNT

- 4.1 Fox Design and Fox International shall keep at their usual place of business all proper books of account of all the product manufactured, sold or otherwise disposed of, as may be necessary to enable the royalties payable to be calculated and audited and shall produce the same to Dellareed or their accountant or appointed representative at all reasonable times on reasonable written notice not exceeding once in every quarter and shall permit them to take copies thereof. Such inspection may be made notwithstanding termination of this agreement whilst any reasonable outstanding claim remains unsettled in the view of any of the parties.

5. STATEMENTS AND PAYMENTS

- 5.1 Fox Design and Fox International shall within one month after the end of each of the usual quarter days after the effective date of the licence furnish to Dellareed a statement showing the manufacture, sales

and dispositions of the product and the amount of royalty due pursuant to clause 2 hereof in respect of the preceding quarter and shall accompany the same with a remittance for the amount shown by such statement to be due.

6. INFRINGEMENT

- 6.1 Each party hereto shall inform the others of any infringement or threatened infringement which comes to its attention.

7. RENEWAL FEES

- 7.1 Dellareed shall pay all renewal fees in respect of the patent as and when the same shall become due PROVIDED that if Dellareed does not wish to maintain the patent they may give one month's notice in writing to Fox Design and Fox International of their intention not to pay the relevant renewal fee and unless Fox Design or Fox International request to be allowed to pay the same in writing within such period of one month, Dellareed may act in accordance with such notice.

8. LABELLING

- 8.1 All the product, packaging and advertising thereof is to be marked with the patent number and "made under licence of right".

9. BREACHES

- 9.1 If Fox Design or Fox International shall commit or allow to be committed any material breach of their obligations hereunder, Dellareed may serve a notice in writing upon them specifying such breach and stating that unless within two months of the receipt of such notice they repair such breach (if the same be repairable) or offer fair compensation therefor (if the same be not repairable) this licence shall upon the expiry of the said two months automatically determine and if Fox Design or Fox International fail to repair such breach or offer fair compensation as the case may be within the said period upon expiry thereof, this licence shall forthwith determine accordingly and without prejudice to any rights, obligations or liabilities already accrued to either party hereto prior to such determination.

10. TERMINATION

- 10.1 Dellareed may terminate this licence forthwith by



written notice to Fox Design and Fox International if:

- (a) any royalties payable hereunder to Dellareed be unpaid after becoming due and more than one month after written notice from Dellareed requiring their payment,  
  
or
- (b) Fox Design or Fox International have a receiver or administrative receiver appointed of the whole or any part of their assets or any order in bankruptcy is made against them.

#### 11. INDEMNITY

- 11.1 Fox Design and Fox International shall indemnify and hold Dellareed harmless from any and all claims arising from the manufacture, sale or other disposal of the product. Such indemnity shall continue in force after expiry or termination of this licence and shall extend to all claims whether made before or after the expiry or termination and whether liability is alleged to arise before or after expiry or termination.

#### 12. TERMS OF LICENCE

- 12.1 This licence shall continue in force, subject to clauses 11 and 12 above, until 13th May 1996 when the patent expires or until the patent ceases to be in force, whichever is the sooner.

#### 13. POST-TERMINATION

- 13.1 Upon termination of this licence under 10 above howsoever occasioned Fox Design and Fox International shall be permitted for a period of 90 days thereafter to sell, transfer or otherwise dispose of the product already manufactured at the date of such termination and to fulfil all orders for the sale or supply of the product subsisting at the date of termination.

#### 14. NO PARTNERSHIP ETC.

- 14.1 Nothing in this licence shall be deemed to constitute a partnership between the parties hereto or to constitute Fox Design or Fox International as agent of Dellareed and none of the parties shall have the right to pledge the credit or incur any obligation on the part of any other of the parties or enter into any agreement on behalf of one of the other parties without the latter's consent.

15. NOTICE

15.1 Notice to be or required to be given hereunder shall be given in writing and shall be given by personal delivery or by first class prepaid registered or recorded delivery or sent by post and addressed to the party to be served at their respective registered office for the time being. Notice given by personal delivery shall be deemed to be given when so delivered in person and any notice sent by post shall be deemed to have been served on the second day of business after posting.

16. PROPER CONSTRUCTION

16.1 This licence shall be construed under English law and the English Courts shall have jurisdiction in the event of any dispute.

In Witness whereof the parties have executed this agreement on the date and year first above-written.

The Common Seal of Dellareed Limited )  
was hereunto affixed in the ) (Signature of  
presence of: ) authorised person)

(signature, name and address of Witness)

The Common Seal of Fox Design )  
International Limited was hereunto ) (Signature of  
affixed in the presence of: ) authorised person)

(signature, name and address of Witness)

The Common Seal of Fox International )  
Group Limited was hereunto ) (Signature of  
affixed in the presence of: ) authorised person)

(signature, name and address of Witness)