0/7/93

PATENTS ACT 1977

IN THE MATTER OF an application under Section 46(3) by Filpin Filpost Limited for settlement of terms of a licence of right under Patent No 1482681 in the name of Fairfax (Dental Equipment) Limited

DECISION

Patent No 1482681, originally in the name of Andrew John Smith, but now proceeding in the name of the proprietor Fairfax (Dental Equipment) Limited (hereinafter "Fairfax") is dated 3 December 1975 and under paragraph 4(2)(c) of Schedule 1 of the Act its term is extended from sixteen to twenty years. During the period of this extension licences under the patent are available as of right.

Filpin Filpost Limited (hereinafter "Filpin") applied to the Comptroller on 22 July 1991 to settle the terms of a licence of right under the patent. The application was accompanied by a draft licence together with a statement which, though applicable under Rule 63 of the previously existing 1982 Rules, is no longer required under Rule 62 of The Patent Rules 1990 and was therefore treated as an accompanying document. Subsequently a statement was filed by the patentee on 4 October 1991 followed by a counterstatement on behalf of the applicant on 16 December 1991. The customary rounds of evidence then followed and, on 16 November 1992 with a view to facilitating the Hearing, a new draft licence agreement together with a further statutory declaration in the name of Mr S J Filhol was received in the Patent Office with a request that they be admitted at the Hearing.

The application subsequently came before me at a Hearing on 26 November 1992 at which Mr A H Laird appeared as Agent on behalf of Filpin and Mr Martin Howe appeared as Counsel for Fairfax.

As a preliminary matter at the Hearing both parties addressed me not only as to whether the new draft licence agreement should form the basic draft for consideration but also as to whether the declaration of Mr Filhol and a late declaration in reply in the name of Mr G C Kay, seen only by Mr Laird on the morning of the Hearing, should be admitted to the proceedings. Mr Laird's concern was that he may not have been able to address fully the issues raised by the late evidence of Mr Kay, particularly as his client was abroad and he had not had time to consult him. However he offered to proceed with the Hearing if I were prepared to accept that this evidence was not to be taken as unchallenged and on this basis I agreed that all the late filed evidence should be admitted. I also agreed that a new draft licence agreement incorporating amendments submitted by the patentee would form the working document for all the issues that would be argued at the Hearing.

The invention, as defined in claim 1 of the patent, is for a dental anchoring device, commonly known as a dental pin, for use in the anchoring of a superstructure such as an amalgam or composite superstructure to a tooth understructure normally formed by removal of carious matter from the surface of a broken tooth. In particular, the dental pin comprises a threaded portion for self-tapping insertion in a bore formed in a tooth understructure, a connecting portion comprising an elongated shank, and a weakened portion intermediate the threaded portion and one end of the shank for permitting shearing and separation of the shank from the threaded portion. The free end of the shank has a flat portion and a part-annular groove whereby the shank can be latched in a latching-type dental handpiece.

Thus, in use, the pin is very safe in that it is securely locked to the handpiece during insertion into a patient's mouth. In the event that it is necessary to insert a pin in each of two holes, claim 4 provides that the threaded portion may be in two sections joined by a further neck, the diameter of the further neck being less than the diameter of the neck defined in claim 1 so that shear will occur first at the further neck.

I should mention at this point, since I shall refer to it later, that the present patent has been the subject of infringement proceedings brought by the patentee against S J Filhol Limited which is a company under the common control, together with the present Applicant company, of Mr Stuart Julian Filhol. The patent was held to be valid and infringed in the High Court

and on appeal to the Court of Appeal. There is presently pending before the High Court an inquiry as to damages for the Defendants' infringement of the patent.

The patentee sells in the United Kingdom dental anchoring pins falling within the scope of the patent under the name "Stabilok". Similar pins are on the market selling under such names as "Whaledent TMS", "Whaledent TMS-Link Series" and "Filpin Nova", the last of these being pins sold by the present applicant. According to the evidence of Mr G C Kay, the director of Fairfax, in a report entitled Dental Consumables Sales Report published by Carl Torrey Associates, the sales of "Stabilok" amounted to 67.9% of the UK market for dentists pins for the 12 months ending 30 June 1991.

General Matters

In his opening remarks it was Mr Laird's submission that in settling the term of the licence there are two factors which I should not take into account, namely the strength of the patent and the reluctance on the part of the patentee to grant a licence.

The background to the former is the fact that the patent has been held to be valid and infringed in the High Court and on appeal to the Court of Appeal. In support of his submission Mr Laird drew my attention to the decision in Cabot Safety Corporation's Patent [1992] RPC 39. This was a case relating to earplugs in which I concluded that the patent was a strong patent protecting a commercially valuable invention and therefore should command a royalty which was high having regard to the nature of the invention. On appeal Aldous J said at page 61:

> "I do not believe that the validity of the patent is a relevant issue when looking at the commercial value of the patent in licence of right cases. In such cases the applicant is seeking a licence under the patent and the court should assume that it is a valid patent. The value of a licence will depend on practical matters such as the ambit of the monopoly, the availability of alternative articles or processes and the market commanded by the patented product."

Thus while I am bound to agree that I should not take into direct account the strength of the patent which in the present case has been confirmed by the Court of Appeal, I must nevertheless have regard to the commercial value of the invention which to some extent may have been achieved by the existence of effective patent protection.

As for the second factor, the reluctance of the patentee to grant a licence, I have no difficulty in agreeing with Mr Laird that this is something I should not consider in settling terms for the reasons set out in American Cyanamid Co's (Fenbufen) Patent 1991 RPC 409. In particular I find support for this approach at the top of page 412 of the decision where Dillon L J says:

> "It would be contrary to the whole conception of a compulsory licence, or licence of right, under an Act to give effect to international conventions if the terms were required to be fixed so as to reflect the fact that the patentee was thoroughly reluctant to grant any licence at all. The obligation to grant licences of right is, in the present context, a quid pro quo for the uncovenanted benefit to the patentee of being granted an automatic four year extension of his patent from 16 to 20 years."

Turning then to the question of the royalty rate, it is clear to me both from the evidence and from the arguments advanced by both sides at the hearing that, in deciding the appropriate rate, I must first of all have regard to the nature of the invention. This is particularly important since there are no comparable licences to help me in deciding the matter.

Put very briefly it was Mr Laird's submission that the present invention is a mechanical invention and, as such, should not carry a royalty rate anywhere near that settled for pharmaceutical inventions. Mr Howe, on the other hand, did not argue that pharmaceutical rates would be any guide but suggested that rates in the medical/surgical area might well provide a meaningful comparison. Thus it was his opinion that we are not in this case dealing with a purely mechanical invention where a rate of the order of 5% to 7% might be set but with an invention which might be regarded as a health product in which case a rate of 15% or more might be more appropriate.

In support of his submission Mr Laird drew my attention to the judgement of Slade L J in the Court of Appeal's decision relating to the infringement action between the two parties. Summarising the judgement Mr Laird concluded that the invention which is the subject of the patent differs from prior art dental pins, and thereby derives it advantage, in that it took the known two-part structure and made it into a securely fixed single unit. In this form it is more convenient to use by the dentist who no longer has to fix the two parts together immediately prior to use. If I understood Mr Laird correctly it is because the advantage is to the dentist and not to the patient, since the practice of dentistry with respect to the latter is unchanged, that the invention ought to be regarded as a mechanical invention.

Moreover in his argument distinguishing pharmaceutical rates from the rate that he felt should be settled here, Mr Laird was of the opinion that the factors which support high rates in the pharmaceutical area do not apply to the dental pins of the invention. Thus, he submitted, there are no high costs relating to research and development, Government approval or establishing a new product and, if one took account of the evidence of Mr Filhol on page 5 of his declaration of 10 November 1992, one would be led to believe that the invention related to a precision engineering product that could be ordered off the shelf.

Mr Howe, for his part, also took me to the judgement of Slade L J in the Court of Appeal, arguing that the point of the invention was that for the first time the shank of the dental pin was designed to fit the same dental handpiece that was used previously to drill the hole to take the pin. In his submission dentists no longer have to worry about the risk to the patient of having a tiny dental pin falling into the mouth and being swallowed or inhaled, and thus here we are dealing with a clinical invention that goes to the way in which dentists operate.

Although he accepted that there is no closely comparable licence in this case, it was Mr Howe's view that similar considerations arose in Cabot Safety Corporation's Patent to which Mr Laird had already referred. In that case the applicant for the licence argued that the patented ear plugs were a mechanical invention whereas the patentees regarded them as a health product; I held that the ear plugs should be compared with a surgical device and my conclusion was not disputed when the case went to the Patents Court. Thus, it was Mr Howe's argument that although there might not be a comparable licence, here is a case

which is sufficiently similar having regard to the general nature of the invention that it provides a reasonable guide as to the level of royalty that should be settled in the present case. In reply, however, Mr Laird considered that there is a significant difference between the two cases in that the invention in the Cabot Safety case lay in the material from which the ear plugs were made which came into direct contact with the human body whereas in the present case the material which comes into contact with the patient is not new.

In support of his argument Mr Howe called as a witness Mr J D Emmanuel, an expert in technology transfer licensing, who had previously submitted written evidence in the proceedings.

It was Mr Emmanuel's contention that the royalty would be dependent upon the value of the invention. In the situation where the cost of the product is low but it's value is high, then a high royalty rate would be expected. He went on to explain that there is no technical risk in making the invention which had captured the major share in an established market and, since the product has a high added value in that it sells at three to four times its cost, this would suggest a royalty rate comparable with that for a modest pharmaceutical licence, perhaps as high as 20% of the selling price.

It is clear from the evidence and the arguments put forward at the Hearing that a determination of the nature of the invention provides the most reliable basis on which I can come to a conclusion on the appropriate royalty rate.

At the one extreme it was suggested on behalf of the patentees that the invention bore comparison with a modest pharmaceutical invention which might indicate a royalty rate of 20% or possibly more. As I have said, Mr Howe did not pursue this approach but suggested that rates which have been applied to products of a surgical or medical nature might provide a more meaningful comparison. There is no doubt in my mind that Mr Laird was right in his submission that the considerations which obtain in respect of pharmaceutical inventions are absent in this case and that any comparison in this respect would be unproductive.

At the other extreme the applicant argued persuasively that the invention is of a straight-

forward mechanical nature and that they were prepared to pay a royalty of 7%, which is towards the higher end of the range which is regarded as reasonable for mechanical inventions.

I have come to the conclusion that it would be wrong simply to regard the invention as one which is solely mechanical in nature. The whole context of the use of the invention is in the dentist's surgery and it would therefore seem appropriate that the device be regarded as one which is surgical in nature, or at the very least, as was the case in Cabot, that it be regarded as a health product. Moreover, the argument that the benefit of the invention lies only with the dentist and not the patient is one that I find difficult to accept. Given that a not inconsiderable number of people find going to the dentist an experience they would rather avoid, it seems to me that any advantage to the dentist must ultimately also be of some advantage to the patient.

If I am right in this, then it suggests that I should be considering a rate in the range of 10-15% for the reasons I gave in the Cabot case. Although I accept Mr Laird's argument that the technology surrounding the invention is not difficult, I must also have due regard to the ambit of the monopoly, the availability of alternative pins and the fact that the product is established and, indeed, is dominant in the market. The evidence establishes, I believe, that the invention is of high commercial value and one for which a willing licensee would be prepared to pay a premium.

Thus, in so far as the nature of the invention provides a reasonable guide, it is my conclusion that a figure in the order of 15% as suggested by Mr Emmanuel in his evidence may not be far off the mark and I will bear this in mind when looking at the figures relating to costs and selling prices in the remainder of this decision.

Royalty - Calculation

The evidence adduced by the parties prior to the hearing presented considerable difficulties in arriving at a royalty rate with any degree of confidence. In essence, these difficulties arise from the fact that not only do the two parties adopt very different business methods in selling

their dental pins to customers but also that in presenting these figures concerning their costs and selling prices, they are working from different bases. As a consequence there is a wide gulf between the parties as to the price on which the percentage royalty rate should bite. I am grateful to Mr Howe and to Mr Laird for their assistance in trying to establish a common basis on which realistic calculations could be made.

At issue is the fact that Fairfax sell their dental pins in the main directly to the users, that is dentists, through a mail order system whereas Filpin sell theirs through dealers or distributors who then sell on to dentists. Clearly this difference in business methods will be reflected in returns from the sale of dental pins; Fairfax will obtain a higher direct sales return for their pins than Filpin but have to face significantly higher marketing and sales costs.

Even if, for the purpose of a meaningful calculation, the different prices resulting from the two different business methods can be reconciled, there is still the problem of whether or not the price of the drill should be included in calculating the average price per pin. On the evidence the packs in which the pins are sold include not only the pins themselves but one or more drills, depending on the size of the pack. The dentist puts the drill into the handpiece, drills a hole in the tooth, takes the drill out of the handpiece and places the dental pin in the same handpiece. The threaded portion of the pin is drilled into the hole until the pin shears off, and the shank portion may then be disposed of.

It was Mr Laird's submission that in calculating the price per pin the price of the drill in the packs should be discounted whereas Mr Howe was of the opinion that this was an entirely artificial exercise since the dentist cannot use the pins without having the appropriate drill. In his view the drill had no other purpose than as an ancillary to the pins.

During an adjournment Mr Laird very helpfully prepared figures which I have found of great assistance in reaching a conclusion on the appropriate royalty; these figures demonstrated that four possible combinations have to be considered in any comparison of selling prices per pin, that is packs where the price includes the drill, packs where the price is calculated excluding the drill, sales to dentists and sales to distributors or dealers.

Summarising these calculations which I understood Mr Howe to accept with certain reservations which I shall come to, Filpin's own pin, the Filpin Nova is sold by their distributor to dentists in a starter pack including two drills for £19.95. A starter pack contains 60 pins and therefore the price per pin, including the value of the drill, is 33.25 pence per pin. If the drill is excluded and Mr Filhol's evidence sets the price of a drill at £1.35, the price per pin to the dentist comes down to 28.75p. On the same basis the price to the dentist of Fairfax's own Stabilok pin including the drills works out at from 35.2p to 39.6p per pin and excluding the drills at 29.2p to 33.6p per pin, depending on the size of the pack chosen.

When the question of sales to the distributor is considered only half of the required information is to hand. Mr Filhol's evidence for Filpin is to the effect that the starter pack of 60 Filpin Nova pins is sold to a dealer at £7.80 which including the drills works out to 13p per pin. Excluding the drills the figure comes down to 8.5p per pin. What is missing is the price charged by a distributor of Filpin Nova to the dentist and the price changed by the patentee to a dealer or distributor. All that we have in the evidence is the fact that the average selling price of the Stabilok pin, taking into account the total number of packs sold of whatever size and by whatever method is 31.1p per pin including the drills.

If I understood Mr Howe aright, whilst he was prepared to accept that the arithmetic of the calculations of the sales to dentists was correct, he was not happy that a proper comparison had been made. In elaborating on this point his chief concern was whether it was right to compare the non-patented Filpin Nova pin with the patented Stabilok pin at all.

On examination the Filpin Nova pin is disassembleable, which places the pin outside the present patent, and is sold in the starter pack in the form of 35 assembled pins and shanks and 25 spare pins. The spare pins are eventually used by combining them with the shanks which have been once-used. Thus these spare pins are not comparable to the patented product and, in Mr Howe's submission, are less useful to the dentists and hence the pack sells at a lower price.

Under the licence sought Filpin would be manufacturing a one-piece pin and the question of the extra pins would not arise and, in Mr Howe's view, it would be wrong to take the prices for the non-patented product, extrapolate those and say that those will be the prices Filpin will be getting for the patented product. This was the more so since, on the evidence and confirmed by Mr Laird, Filpin would be making their pins under the licence all in metal. Such pins would be a niche product attracting a premium price.

In essence what Mr Howe was submitting was that the patentee's prices were the better guide to settling the royalty rate than the applicant's prices for his non-patented product which were inevitably lower.

Whatever price I select as appropriate in settling the royalty rate, I still have to consider whether this should take into account the price of the drills included in the packs of pins sold to dentists. Mr Laird sought to persuade me that the drill gives value to the pack and there is no good reason why the licensee should be paying for a licence on subject matter which is not covered by the patent; the royalty should only be payable on that portion of the sales value attributable to the pins. On the other hand Mr Howe was of the opinion that the pins are useless to the dentist without the drill and the cost to the dentist per pin is in the total cost of the pack, not how it is made up. It is true that both parties sell additional drills separately but it was suggested by Mr Howe that this is not a good guide to the value of the drill in a normal package. Thus if I was minded to exclude the profit relating to the drill from my calculations, it was urged upon me that I should not take the "sold as spares" price as the starting point for those calculations as was apparently the case in Mr Filhol's evidence where it was submitted a massive over-deduction for the drills had been made.

Before coming to a conclusion on what I consider to be an appropriate royalty rate I think for completeness I must deal with the matter of the attitude of both parties to the sales made direct to a distributor. As I have said Mr Laird highlighted the problem here in that there is no data in the evidence on the price charged by the patentee to a dealer or distributor. On the evidence the Filpin Nova pin is sold to the distributor at something like 8 to 13p depending on whether the price of the drill is included in the calculations. Mr Laird agreed that the best estimate of the price for the new pin, based on Mr Filhol's evidence is 12.4p

which does not include the price of the drill. This indicates that the new product under the licence will be some 50% more expensive to make and will be seen as a niche product for those dentists who would like to use an all metal pin. Its selling price would obviously reflect the increased manufacturing costs and on that basis it would not be a big seller. Mr Howe, I think, was inclined to dismiss these figures as not really telling anything other than that there has to be more room for profit for Filpin to pay royalties to the patentee on the pin within the patent than in respect of the Filpin Nova.

With that said, I come now to my assessment of what the royalty rate should be. Mr Laird has said that this is going to be extremely complicated and whilst I would not totally disagree it does seem to me that the figures, particularly as they were explained at the hearing, go some way towards making my task easier. I must say at the outset that I am inclined to agree with Mr Howe that Filpin's figures with respect to the product they are proposing to put on the market are not as helpful as perhaps I would like them to be. I draw this conclusion from the fact that even on Mr Laird's admission they are at best an estimate and relate to a product which, though falling within the patent, is not directly comparable to that of the patentees in that it is made solely of metal. It remains true also that Filpin could change their mind and produce a range of products under the licence in which case the figure of 12.4p per pin would be a very rough guide as to what an appropriate figure should be.

I am left then with a comparison of the sales price to dentists of the Filpin Nova pins and the Stabilok pins. In addition I have to take seriously into account the figure of 31.1p per pin which is the average selling price achieved by Fairfax from the sales of different categories of kit to dentists and dealers over the 12 month period to 30 June 1991.

The conclusion which I draw from the different selling prices is that they are not widely different; if I take the economy size packs and put to one side the questions of whether a comparison of the different pins is wholly valid and whether the full cost of the drill should be counted, I see that the price per pin ranges from 28.75 to 33.25 pence for Filpin's own pin and from 29.20 to 35.20 pence for the Stabilok pin, the higher price in each case reflecting a proportionate cost of the drills in the pack. This points to a price something in excess of 30 pence per pin as the basis for my calculations and, for the reasons put forward

by Mr Howe, I do not see that I can come to a more precise conclusion on the limited evidence. Thus the fact that the unpatented Filpin Nova pin is very different from the patented Stabilok pin costs doubt on whether I can take any particular figure and, from it, derive an appropriate rate of royalty. What the figures do seem to suggest is that the patentee's current selling price of 31.1p is not an unreasonable figure to take, notwithstanding the fact that Mr Laird's calculations have led to this sort of figure via a different route.

Although the patentee's selling price of 31.1 pence includes an element of cost for the drills, it is an average price and is well below the price of 35.2 pence which Mr Laird's calculations suggest is the price at which the patentee sells the packs including the drills to dentists and, to that extent, it might be regarded as already including some discount in respect of the drills. In any event, I do not propose to make any further reduction in respect of the drills, given the lack of certainty in the figures. Whilst I take Mr Laird's point that a licensee should not be expected to pay a royalty on material which is outside the scope of the patent, equally it does seem to me that in buying the pins the dentist needs to, and inevitably does, buy the drills to enable him to insert the pins correctly into a patient's teeth. Whether the drills provided with the patentee's kits and the applicant's kits are interchangeable was the subject of some argument but it is clear it would not be wholly satisfactory to use an ordinary drill of the appropriate diameter but missing a depth limiting shoulder. Thus, as far as the dentist is concerned the cost of the pin includes the cost of the drill and the two are not easily divorced.

In view of the complications over the different marketing channels and the difficulty of establishing a clear selling price, the parties agreed at the Hearing that I should set the royalty on a price per pin basis. Taking then the patentees overall selling price of 31.1p per pin as a reasonable basis I have come to the conclusion that a royalty rate of 4.5p per pin is appropriate. This works out to approximately 14.5% of the overall selling price and is in line with the figure of about 15% I alluded to previously when considering the nature of the invention.

Notwithstanding the criticism made of the 'profit available' approach made by the Court of Appeal in Smith Kline and French Laboratories Ltds (Cimetidine) Patents reported in 1990 RPC at pages 244 and 257, both sides suggested that this approach might provide some assistance in the absence of comparable licences. Taking this approach I note from Mr Kay's first declaration for Fairfax that the average gross margin on sales in the United Kingdom achieved by the patentee is 35.14% of the selling prices. Based on a figure of 31.1p per pin this gives a margin of 10.9p per pin which, if for the sake of argument is split 50:50 between the patentee and applicant, gives a figure of 5.45p per pin. I would need more than the figures available in this case to decide whether a 50:50 split is entirely appropriate, but this somewhat rudimentary type of calculation, if useful at all, does at least serve to demonstrate that the figure of 4.5p per pin is not entirely unreasonable.

Before leaving the question of the royalty rate, I should comment upon the proposition put to me by Mr Laird that, because the applicant's business structure is such that sales to the user are made via a distributor, the applicant cannot be expected to pay a royalty on income which he does not receive, that is the income received by the distributor. Mr Laird regarded it as an additional penalty in a situation where the patentee is compelled to grant a licence that the licensee should be required to arrange his business matters to ensure that the patentee receives remuneration comparable to that which he would have received if the applicant had chosen to operate in a similar manner to the patentee.

I cannot accept this argument. It is well established that, in settling the terms of the licence, regard should be paid to the requirement of Section 50(1)(b) that "the inventor or other person beneficially entitled to a patent shall receive reasonable renumeration having regard to the nature of the invention"; no mention is made in this Section of the licensee's ability to pay. While I accept Mr Laird's contention that the applicant's business arrangements are perfectly normal, it seems to me that, in the present case, it is for the applicant to renegotiate the agreement with his distributor if he considers that the profits from sales under the licence are not correctly apportioned. 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.

Security for Royalties

Having set what I consider to be a reasonable royalty rate I will move on to another significant feature in this case which is the matter of security for royalties. It stood accepted by Mr Laird that the concern shown by the patentee that the royalties might not be paid should be met by the applicant. This concern expressed by Mr Howe arose out of the fact that Mr Filhol's previous companies had been found both by the High Court and the Court of Appeal to infringe the patent in suit, and his two companies had gone into liquidation. There is now a new company under his control applying for the present licence, and the assets of that company are far from clear. Moreover Mr Filhol himself is resident in Ireland and therefore not within the jurisdiction. In these circumstances Mr Howe was concerned that arrangements should be put in place to protect the patentee in respect of money owed to him under the licence.

Paragraph 3.9 of the draft licence sets out the arrangements which the applicant regards as adequate to meet the patentee's concern. This paragraph had been modified in manuscript by the patentee in the working document passed up on the morning of the hearing and as I understood Mr Laird in his reply he was prepared to accept these more detailed provisions. What is left for me to decide is the amount of the bond that is required of the applicant.

In his submission Mr Laird suggested that a bond of £10,000 is a sensible level to give satisfactory protection to the patentee. This is considerably less than the £35,000 that the patentee thought appropriate in his evidence; Mr Howe did not develop an argument as to the suitability of this figure, merely stating that the amount of the bond depended to an extent on the rate of royalty I decided. Drawing my attention to Shiley Inc's Patent [1988] RPC 97 Mr Howe suggested that the amount also should be related to the royalty which might be payable in a single year, although Mr Laird was of the opinion that there was no settled rule of a security for royalties being equivalent to a whole year of royalty payments.

Under the terms of the draft licence in the present case there would be some five months royalties outstanding before the agreement was terminated due to non-payment. Clearly the bond should cover this period at least and, as I understand Mr Laird to agree, any legal costs

in the event of a dispute going to court should also be drawn out of the bond. Thus whilst a bond related to a whole year of royalty payments may not be entirely appropriate, nevertheless a figure estimated for that sort of period may be a reasonable guide.

Mr Emmanuel in his first declaration suggests that the bond should be related to a minimum annual turnover of £100,000 which, if my calculations are correct, is some 10% of the turnover achieved by the patentee on his Stabilok pins. This sort of penetration into the market would not seem unreasonable although Mr Filhol in his evidence does not expect sales to be anything like this sort of figure.

Assuming, however, that this sort of figure might be achievable, even for a niche product, I calculate that the royalties payable by the applicants in a single year would be of the order of £14,500. This being the case and taking into account that a realistic figure might be something less than that for a full year I determine that the guarantee bond should be £12,000 and that this figure should be inserted where there is presently a blank in paragraph 3.9 of the patentee's draft licence.

Other terms of the licence

I have already indicated that the royalty rate provided for in paragraph 3.1 of the draft licence should be set at 4.5p per pin. In the same paragraph the patentee has invited me, by an insert in manuscript, to determine a minimum payment per quarter in order, as Mr Howe put it, to cover his administrative costs. I have come to the conclusion that it would be wrong to set a minimum royalty payment. While it is far from clear what the applicant's penetration into the market under the licence might be, which might lead to the inclusion of such a clause in a freely negotiated exclusive licence, I accept Mr Laird's argument that it is not appropriate in a situation where licences are available as of right and I order that the clause inserted in manuscript relating to the minimum royalty payment in paragraph 3.1 be deleted.

Taking the remaining paragraphs of the draft licence I will refer only to those where there was agreement, but where amendment is required, and those where at the hearing there was some dispute.

Paragraph 2.2 is agreed with the insertion of "or elsewhere" before the final full stop.

As I understood Mr Laird he was prepared to accept paragraph 3.2 including the amendment inserted in manuscript by the patentee as long as the applicant did not have to describe technically the product but simply give enough information such as a trade name so that it is recognisable. Mr Howe found this acceptable and I therefore order that paragraph 3.2 in the form including the manuscript amendment be included in the licence and that the patentee takes note of the agreement reached at the hearing on how the applicant's products should be reported.

At the hearing Mr Laird seemed to have a problem with paragraph 3.3 in so far as he did not know how to interpret a "material under-declaration of royalties" in the part of the paragraph inserted in manuscript by the patentee. I have the same misgivings as Mr Laird particularly as such a vague definition could lead to a protracted dispute between the parties. It is my opinion that the auditors costs should be borne by the applicant when the level of under-reporting is 5% or more and therefore the draft licence should be amended to reflect this finding.

Paragraph 3.7 as modified by the patentee in manuscript is agreed except that the figure of 4.5p per pin should be inserted in the space provided.

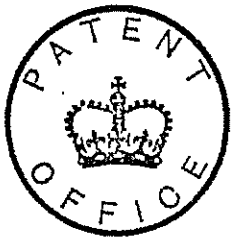
The main point of disagreement over paragraph 3.8 is whether the interest due should be the 2% above base rate suggested by the applicants or the 5% above base rate suggested by the patentees. I have decided that the figure of 5% above base rate would be more appropriate.

Mr Howe drew my attention to the decision in Allen & Hanbury's Ltd's (Salbutamol) Patent [1987] RPC 327 in requesting that the "most favoured nation" clause at paragraph 3.10 be

deleted. I agree that such a clause is inappropriate in a licence of right case and order that paragraph 3.10 be deleted.

Taking into account all the matters decided above I order the patentee to grant to the applicant a licence under patent No 1482681 in the form appended to this decision.

Dated this 19TH day of January 1993



P J Herbert
Superintending Examiner, acting for the Comptroller

THE PATENT OFFICE


PATENT
19
JANUARY
1993
OFFICE

THE LICENCE

Date:

PARTIES:

1. "the Patentee": FAIRFAX DENTAL LIMITED
whose Registered Office is at
103 Newgate Street
London EC1A 7AP

2. "the Licensee": FILPIN FILPOST LIMITED
whose Registered Office is at
46 Queen's Road
Coventry CV1 3EH

RECITAL:

Upon the failure of the Patentee and the Licensee to agree terms of a licence to the Licensee under the Licensed Patent, the Comptroller has settled the terms of a licence as hereafter set forth under the provisions of Section 46 of the Patents Act 1977.

NOW THIS LICENCE OF RIGHT IS GRANTED PURSUANT TO AN ORDER OF THE COMPTROLLER OF PATENTS AS FOLLOWS

1. Definitions

1.1 In this Licence the following terms shall have the following meanings unless the context otherwise requires:

"LICENSED PATENT"	United Kingdom patent No 1,482,681
"LICENSED PRODUCTS"	Dental pins falling within any claim of the Licensed Patent

"TERRITORY" The United Kingdom of Great Britain and Northern Ireland and the Isle of Man

2. Licence

2.1 The Licensee is hereby granted a non-exclusive licence under the Licensed patent to import Licensed Products into the Territory from any country of the European Community and to make, dispose of, offer to dispose of or use the Licensed Products or keep them whether for disposal or otherwise in the Territory.

2.2 For the avoidance of doubt it is hereby declared that no licence is hereby granted or to be implied from the licence of clause 2.1 under any other patent or other intellectual property rights of the Patentee in the Territory or elsewhere.

3. Royalties

3.1 In consideration of the rights hereby granted the Licensee shall pay to the Patentee, in the manner and at the time provided for below, royalties on all Licensed Products sold by the Licensee in the Territory during the term of this licence at the rate of £0.045 per dental anchoring device sold.

3.2 The Licensee will report to the Patentee, within 30 days of the 31st March, 30th June, 30th June, 30th September and 31st December during the continuance of and next following the termination of this licence, the amount of royalty due and payable in accordance with clause 3.1 in respect of sales made during the preceding calendar quarter and shall pay all royalties shown thereby to be due to the account of the Patentee with ..... Bank PLC or such other bank as the Patentee may from time to time designate. The Licensee's report shall set out the types and classes of pins sold, the number of each type or class, and shall distinguish between UK and export sales.

3.3 The Licensee shall keep true and accurate records of all Licensed Product supplied by the Licensee in the Territory, and at the request of the Patentee will

permit an independent auditor, or other person to whom the Licensee shall have no reasonable objection, to inspect at any reasonable time during normal business hours such books and records as may be necessary to determine the correctness of the royalties due and payments made hereunder or to obtain information as to the amount of royalties payable in the case of failure of the Licensee to report. Such auditor or other person shall report to the Patentee only the amount of royalties due and payable to the Patentee hereunder and the other matters required to be set out in the report. In the event of such auditor finding a material under declaration of royalties of 5% or more, the licensee shall pay to the Patentee the auditor's costs. In any event, the Licensee shall provide to the Patentee a certificate on each anniversary of this License until all Licensed Products have been disposed of from its usual auditor at no cost to the Patentee that all royalty returns made in the preceding year are correct.

3.4 All sums payable hereunder shall be paid in full without any deduction whatsoever except for such tax as the Licensee is legally bound to withhold, in which event the Licensee shall furnish the Patentee with certificates of tax so withheld in such form as the patentee may reasonably require.

3.5 All sums payable hereunder are exclusive of Value Added Tax which, insofar as applicable, shall be paid by the Licensee at the rate ruling at the relevant tax point on receipt of the Patentee's tax invoice.

3.6 On termination of this licence, the Licensee shall permit an independent auditor, or other person to whom the Licensee shall have no reasonable objection, to inspect at any reasonable time during normal business hours such books and records as may be necessary to determine the stock of Licenced Products held by the Licensee in the Territory. Such auditor shall report to the Patentee the amount of such Licensed Products so held.

3.7 Upon termination the Licensee shall pay royalty at a rate of £0.045 per pin in all stocks of licensed products held at termination.

3.8 If any sums due to the Patentee from the Licensee are not paid on the due date then the Licensee shall pay interest on the amount from time to time outstanding from the date that the same became due until actual payment at the rate of 5% above the base rate from time to time of Barclays Bank PLC.

3.9 This Licence shall not enter into force until the Licensee has presented to the Patentee a deed of guarantee entered into by Barclays Bank PLC in favour of the Patentee, under which the Bank shall undertake:-

(i) On receipt of a written certificate from the Patentee to the effect that a return of royalties hereunder has not been received by or within 7 days after its due date to pay to the Patentee forthwith the maximum sum payable under the deed;

(ii) On receipt of a copy of a royalty return of the Licensee certified to be a true copy by the Patentee and a certificate from the Patentee to the effect that the royalty shown as due has not been paid in whole or in part, forthwith to pay to the Patentee the sum of royalty not paid together with interest calculated in accordance with Clause 3.8 above, up to the said maximum sum;

(iii) On receipt of an auditor's certificate to the effect that royalties are due which have not been shown in a return or returns or if shown have not been paid, to pay to the Patentee the sum or sums certified as being due but unpaid together with interest thereon in accordance with clause 3.8 above and the auditor's costs as certified by the auditor all up to the said maximum sum;

(iv) On presentation of any judgment of a Court in England in favour of the patentee against the Licensee in respect of any royalties interest or other sums due under this Licence, forthwith to pay to the Patentee the sum or sums adjudged to be due together with any legal costs and/or interest, all up to the paid maximum sum.

The said maximum sum shall be not less than £12000, and the guarantee shall remain in force until all royalty payments have been duly made.

4. Term and Termination

4.1 The licence hereby granted shall come into force on the date of the order by the Comptroller and, unless earlier terminated under any provision herein, shall continue in force until expiry or earlier lapse of the Licensed Patent.

4.2 The Licensee may terminate this licence by giving at last 30 days written notice to the Patentee of termination.

4.3 If the Licensee:

4.3.1 shall be in breach of any of its obligations hereunder and fail or be unable to remedy such default within 30 days of receiving notice thereof from the Patentee; or

4.3.2 shall have a receiver appointed over all or any part of its assets; or

4.3.3 make any composition with creditors; or

4.3.4 go into liquidation, whether voluntary or compulsory (otherwise than for the purpose of amalgamation or reconstruction);

then the Patentee may by notice to the Licensee forthwith terminate this licence, provided always that such termination shall be without prejudice to any rights accrued at the date of such termination.

5. Infringement

5.1 The provisions of Section 46(4) and 46(5) of the Patents Act 1977 will apply to the issue of any infringement of the Licensed Patent provided that:

5.1.1 any request made by the Licensee pursuant to Section 46(4) shall be in the form of notice in writing and contain particulars of any allegedly infringing activities, including:

(a) The name and address of the alleged infringer

(b) Details of the allegedly infringing product

(c) At least one act of infringement.

5.2.2 the period of two months under Section 46(4) shall run from the receipt of the foregoing particulars.

6. General

6.1 This licence is personal to the Licensee, which shall not be entitled to assign it or grant any sub-licences thereunder.

6.2 Any notice required to be given hereunder by either party to the other shall be in writing and shall be served by sending the same by registered or recorded delivery post, first class, to the address of the other party as given herein, or to such other address the party may have previously notified to the party giving notice as its address for service.

6.3 The headings in this licence are for convenience only and are not intended to have any legal effect.

6.4 The construction validity and performance of this licence shall be governed in all respects by English law and the Courts of England and Wales shall have exclusive jurisdiction in respect of any disputes arising in connection therewith.