

## **COPYRIGHT DESIGNS AND PATENTS ACT 1988**

**IN THE MATTER OF** an application  
by Stafford Engineering Services Limited  
under section 247 for the settlement of a  
Licence of Right available under paragraph  
19(2) of Schedule 1 in respect of  
copyrights owned by Michael Wood

### **DECISION**

#### **Introduction**

1. This decision concerns an application under section 247 of the Copyright Designs and Patents Act 1988 ("the 1988 Act") by Stafford Engineering Services Limited ("Stafford") for a licence of right under paragraph 19(2) of Schedule 1 to the 1988 Act, in respect of copyrights owned by Mr Michael Wood. They relate to trussed beam and tower systems manufactured by Slick Systems Limited and Slick Systems International Limited ("Slick") of which Mr Wood is a director.

2. The trussed beams and towers are rather like a superior form of scaffolding, separate sections of which can be rigidly connected together to form structures which can be used as supports for lighting and the like for concerts, exhibitions and product launches. Slick make different ranges for light duty and heavy duty purposes, but they are all of broadly similar construction. Each section comprises three or four longitudinal tubes interconnected by smaller diameter tubular braces to form trussed triangular or rectangular cross section modules. The modules come in various straight sections, corner sections etc which allow different arrangements of support structures to be assembled. They are fixed together by mating connectors provided at the end of each of the main tubes.

3. Stafford filed its application, together with a draft licence, on 16 October 1996. Since then the proceedings have gone far from smoothly. Indeed, they started going off the rails almost immediately in that the Notice of Objection from Mr Wood on 4 February 1997, and a number of letters he filed both before and after that Notice, dealt primarily with matters which were not really germane to these proceedings. Mr Wood asserted among other things that a former employee of Slick now working for Stafford was contractually prevented from using trade secrets and know-how obtained while in Slick's employ, that Stafford was making use of confidential trade information owned by Slick, in the form of a brochure relied on by Stafford in identifying designs for the purposes of this action, that Stafford and a company called Camco Produktions-und Vertriebs-GmbH ("Camco"), which was previously a trading partner of Slick's and was now cooperating with Stafford, were competing unfairly with Slick. I think Mr Wood now recognises - albeit perhaps reluctantly - that these issues have no bearing on the application before me.

4. The proceedings then got bogged down with questions about quite what designs the applicant was seeking to make and whether any licence could or should cover them. In particular Mr Wood asserted that Stafford had failed to identify adequately which designs it was interested in and that many of the designs in the Slick brochures quoted by Stafford were of later date than 1 August 1989 and were therefore not subject to the transitional licence of right provisions available under paragraph 19 of Schedule 1 to the 1988 Act. Indeed, these questions assumed such importance in the many exchanges of correspondence that most of the evidence that was subsequently filed before the substantive hearing related to them.

5. In addition there were difficulties in the timely and appropriate form of submissions from Mr Wood's side. Indeed it was the late submission of Mr Wood's second round of evidence after a number of extensions and false starts that led to me issuing a preliminary decision on 9 December 1997 on the admissibility of that evidence, and that decision in turn led to another round of evidence from both sides.

6. The net result of all this is that three weeks before the date set for the substantive

hearing, despite a substantial amount of correspondence and evidence on other issues, Mr Wood had made hardly any comments on the detailed terms of the licence. As a result, neither side had submitted much evidence pertaining to those terms, and in particular to the appropriate royalty rate. It was only at that stage, in a letter of 12 September 1998, that Mr Wood submitted a list of proposed amendments to the draft licence, though still with no evidence on royalty.

7. The matter came before me to hear the substantive matters on 2 October 1998. Mr Daniel Alexander appeared as Counsel for the applicant and Dr Bainbridge represented Mr Wood. Mr Alexander did not object to the lateness of Mr Wood's submissions of 12 September and did not feel he needed to adduce evidence in respect of them, so I agreed to consider them at the hearing.

8. Unusually, the substantive hearing did not dispose of all the issues, because it highlighted problems in identifying the copyrights to be licenced. As a result, at the conclusion of the hearing I made an order for copies of all the relevant pre-1989<sup>1</sup> drawings to be produced to deal with this particular issue. A set of drawings were duly produced, but Stafford promptly challenged its authenticity and completeness. Subsequent events have shown that challenge to have been justified, but resolving the issues arising has taken over a year. The net result is that only now, nearly 15 months after the substantive hearing and 5½ months after the licence has actually lapsed, am I in a position to issue the present decision settling the licence terms. This delay is appalling and was due almost entirely to Mr Wood. I will consider the implications of that when I come to costs.

9. Decisions are clearly best written promptly after a hearing, whilst the arguments are fresh in the Hearing Officer's mind. I recognise that the parties may therefore feel uneasy about how well a decision written 15 months later will reflect what was actually put forward at the hearing. To set their minds at rest, I would like to assure them that I did indeed write this decision in draft form immediately after the hearing. Clearly I have had to alter and/or amplify

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<sup>1</sup> In this decision, by "pre-1989" and "post-1989" I mean prior to or after 1 August 1989

some parts since then to reflect subsequent events, but the remaining parts represent the conclusions I reached immediately after the hearing.

### **Modifications of the original designs**

10. Before I can turn to the licence terms, I must deal with two preliminary matters which have proved to be major areas of contention. The first concerns the relationship between the copyrights to be licensed and what Stafford actually wants to do.

11. Stafford has applied for a licence of right under the transitional provisions of paragraph 19 of Schedule 1 to the 1988 Act in respect of design documents created before the commencement date of the 1988 Act, that is before 1 August 1989. What it actually wanted to do was make trussed beam and tower systems like certain of those currently being made by Slick. More specifically, it wished to produce all of the current designs in each of the four ranges listed in the schedule to their draft licence, that is the Lite Beam (triangular section beam), Mini Beam (350 by 250mm approx rectangular section beam), Maxi Beam (600mm approx square section beam system) and Ground Support (350 mm approx square section tower system) ranges. It is common ground that these ranges have been in production since before 1989 but that they have been modified since that date. (There was some disagreement as to whether another design, the GS Truss, does or does not fall within the Ground Support range, but that issue has now fallen by the wayside.)

12. The applicant argues that the developments that have been made to the designs since 1989 are not sufficiently extensive to create new copyright. Its counterstatement, for example, states:

"The Applicant contends that the designs were produced before 1st August 1989 and, furthermore, to the extent that any developments of these designs have been made, these developments did not create an original design as defined in section 213(1) of the 1988 Act in that they differ from the pre-1st August 1989 designs only in immaterial

details ... [there is] ... no evidence to suggest that any developments of these designs are susceptible of any fresh copyright or design right..."

13. At the hearing, Mr Alexander developed the applicant's position further. He said that a licence under the terms of section 237 and paragraph 19(2)a of the 1988 Act would give Stafford the right to do anything which would otherwise infringe the copyright in the design documents. Section 16(3) of the 1988 Act provides that copyright can be infringed by copying the work or "any substantial part of it". Making a substantially similar article to the design would therefore be an infringement and would consequently come within the terms of the licence. As a result, the applicant would be entitled, under a licence of right, to make substantially similar copies as well as exact copies. He said that the modifications made to the Slick designs since 1989 are not so extensive that they would be excluded from the definition of what is substantially similar to the original designs, and the applicant would consequently be entitled by the licence of right in respect of pre-1989 designs to produce articles similar to those in Slick's current range as well.

14. Mr Wood disagrees with the applicant's approach. He argues that the post-1989 modifications are such as to create new designs which are the subject of design right in their own right. Accordingly, they are not subject to any licence of right under paragraph 19 of schedule 1 to the 1988 Act. The applicant can have a licence to make the designs as they stood in 1989, but not to make the current versions. Much of Mr Wood's evidence was directed at supporting this argument. It included explanations by a Professor Gough of the detailed ways in which the designs have been changed since 1989 and the significance of these changes. Further, at the hearing Dr Bainbridge very strongly took the view that if subsistence of design right in post-1989 designs was an issue, the applicant should make a separate application for a determination of subsistence under section 246 of the 1988 Act.

15. At the hearing there was extensive discussion of this difficulty of knowing exactly what the applicant as licensee could and could not do. Mr Alexander was anxious that I should endeavour to resolve the issue because otherwise he foresaw that settling the licence would simply lead the parties straight into further litigation over whether or not Stafford were

infringing post-1989 design right. I wholeheartedly agree that leaving the issue unresolved will be most unsatisfactory, but as I indicated at the hearing, I have come to the conclusion that unless the two sides are prepared to cooperate with one another - and there is precious little sign of that - there is very little I can do. I do not believe the law empowers me to settle a licence under the transitional provisions which explicitly includes designs that were produced after 1 August 1989. Similarly I do not believe it would be right for me to put my own gloss on the law by trying to specify in the licence what might or might not fall within the compass of the expression "any substantial part", nor do I believe I can resolve the question of whether design right subsists in the post 1989 modifications when no action under section 246 of the 1988 Act has been launched. Having said that, if both sides had agreed that I should do so, I would have been willing to resolve these issues in settling the licence terms, but without that agreement I can do nothing because I cannot go beyond the powers given to me under the Act. Consequently, I have come to the conclusion that the licence will simply have to be a licence in respect of pre-1989 documents.

16. For the sake of completeness. I ought to say that I asked at the hearing whether there were articles included in the current Slick catalogue that had been designed or modified since 1 August 1989, but had now been commercialised for five or more years and were therefore potentially subject to licences of right under the design right provisions proper of the 1988 Act, that is under section 237. Neither side considered this was an issue, I think because there were, in fact, no significant modifications in the relevant period. Accordingly I do not need to consider this in my decision.

### **Identifying the copyrights to be licensed**

17. I must now turn to the second contentious preliminary matter, the identification of the copyrights to be licensed.

18. Stafford had initially worked on the basis that they would list four relevant ranges of modules in the schedule to the licence, namely "Lite Beam, Mini Beam, Maxi Beam and

Ground Support (Tower Mast Sections)”. These modules are shown in the earliest of Slick’s promotional brochures attached to Stafford’s counterstatement, which appeared to date from pre-1989. However, at the hearing Dr Bainbridge asserted that some of the representations in that brochure dated from after 1989, and it was tacitly agreed by the parties not to rely on that brochure to identify the designs. Stafford subsequently sought to further particularise the relevant designs by reference to a post-1989 brochure. But it is clearly not acceptable that the licence should specify the design documents covered by the licence by reference to post-1989 designs, for the reason just discussed. Mr Alexander explained that Stafford had been hamstrung in drawing up a detailed schedule of pre-1989 designs since Mr Wood had always refused to supply copies of any pre-1989 design drawings. He went on to say that this case was different from previous copyright licence of right cases in this respect, since in previous cases the parties had quite specific articles before them in respect of which the licence was to operate. Both sides in those cases knew that the licensee intended to produce articles precisely the same as the licensor's articles, and there was in reality no need for any specific design drawings or other records to be produced. In the present case by contrast, where the licensee wanted to produce articles that were somewhat different from the designs in the relevant drawings, it was very necessary for the drawings to be available to Stafford so that it could determine for itself whether what it was and had been doing amounted to copying “any substantial part”. Without seeing the drawings, it could not determine on which of its products royalty ought to be paid.

19. At the hearing Dr Bainbridge conceded this point and agreed that Mr Wood would produce pre-1989 drawings of the designs for attachment to the licence. He also agreed that the drawings needed to be made available in advance of final settlement of the terms of the licence in case they presented issues that either Stafford or Mr Wood would need to address and which I should take into account in finalising the terms of the licence. Consequently I issued an Order ordering Mr Wood to produce all such relevant drawings within 1 month.

20. In response to the order, on 30 October 1998 Mr Wood sent in a set of 17 drawings having various dates in 1988 and 1989. Stafford immediately said they had grave doubts about their authenticity since the drawings were produced by computer aided design (CAD),

and they did not believe Slick had CAD facilities until after 1989. Mr Wood made no response to that, despite a number of requests from Stafford, until February 1999 after Stafford asked the Office for an order obliging Mr Wood to provide more information. At that stage, Mr Wood responded by asserting that the drawings were of the stated dates, and that he did have access to CAD at that time. Stafford countered this in a letter of 1 March 1999 saying it had information that Slick did not have CAD until 1992, that all drawings were hand-drawn until then, that Mr Wood was not involved in producing drawings himself during 1988 and 1989, and that the drawings did not represent articles manufactured in 1988 and 1989 and so cannot have been originally produced at that time.

21. Stafford maintained their request for an order, and these events culminated in my issuing a procedural decision on 8 March 1999 ordering Mr Wood to provide further information relating to relevant drawings and to allow inspection of originals. Mr Wood responded with an affidavit accompanied by copies of six further drawings, this time apparently hand-drawn, and he offered to allow inspection of the originals of these drawings. He did not offer any explanation as to why these additional drawings had not been submitted with the 17 sent in on 30 October 1998 in response to my previous order, nor did he withdraw his assertion that the CAD drawings were of 1988 and 1989 dates.

22. Stafford inspected the hand-drawn drawings and subsequently filed affidavits by a Paul Marsh and a Joachim Stöcker on 17 May 1999. Paul Marsh said he was production manager of Trader Horn (Welding Services) Ltd which was run by Mr Wood and started the manufacture of the “Slick” series of trusses. Mr Marsh said he worked there from 1984 and was production manager from 1986. He later became production manager for Slick Systems when it started business in 1988 and was responsible for production of the truss systems there as well. From this close association with the production of the Slick trusses at the appropriate time, he provided further extensive particulars challenging the authenticity of the CAD drawings. Mr Stöcker’s evidence supported this, albeit from his more detached position in Camco. Mr Wood made no response, and subsequently Stafford submitted that in view of this evidence, the CAD drawings should be disregarded. Stafford accepted the hand-drawn drawings as genuine and pre-1989, but had reservations about the ownership of copyright in



them, did not consider one drawing was representative of the article as manufactured, and did not wish to take a licence in respect of two others. It said that if the Patent Office accepted Mr Wood did or might own copyright in the drawings, Stafford wanted to take out a licence in respect of four of them. As I have said above, this is not an action under section 246 of the 1998 Act to determine subsistence or ownership, so I cannot rule on whether or not Mr Wood does own copyright in these drawings, and in the light of this Stafford has now confirmed that it does indeed want a licence in respect of the four drawings.

23. Mr Wood was then given a further opportunity to respond, but again declined to do so. For the avoidance of any doubt, I should say that Mr Wood's team were during this period made aware of developments and understood they had opportunities to make submissions. The Patent Office was in telephone contact with a Mr Ali at Slick, who was speaking for Mr Wood, and there is no doubt that he could have responded had he chosen to do so.

24. Eventually the Office wrote to the parties on 9 November 1999 indicating that the matters outstanding since the substantive hearing had now been addressed, and that I now proposed to make a decision settling the licence on the basis of the points raised at the substantive hearing and the subsequent representations. The parties were given a further opportunity to make observations. Stafford replied but again Mr Wood did not respond. Finally, on 22 November the parties were told that the licence would now be settled and that no further submissions would be considered.

25. That, however, was not the end. 2½ weeks later on 9 December, with no explanation or apology for their extraordinary lateness, Mr Wood submitted by fax what purported to be two affidavits challenging the evidence that Messrs Marsh and Stöcker had supplied nearly 7 months previously. At the moment, what has been supplied is inadmissible as evidence because it is only a fax - the Office has still not been supplied with the original affidavits. However, if the originals were to be supplied and I were to admit them, it would delay the settling of the licence still further, and I do not think that would be fair on Stafford. Accordingly, I refuse to admit these affidavits. The result is that I must treat the evidence of

Messrs Marsh and Stöcker as unchallenged, and that means I must accept that the 17 CAD drawings are not pre-1989.

26. The position we have now reached, then, is that only six pre-1989 drawings have been identified. Mr Wood has failed to establish that there are any other pre-1989 drawings for the Lite Beam, Mini Beam, Maxi Beam and Ground Support ranges. He has twice been ordered to produce all such drawings and has only come up with the 17 CAD drawings - which I have rejected - and the six hand-drawn ones. Stafford says that two of the six hand drawn drawings are irrelevant to the present application. Consequently, the schedule of identifiable design documents to which the licence will apply can only consist of the remaining four drawings, namely the drawings appended to Mr Wood's third Affidavit dated 6 April 1999 and identified as LB1000, MB3W/B, Mini Beam and M24.

27. Stafford, however, remains concerned Mr Wood might produce further pre-1989 drawings at a future date. Given Mr Wood's approach so far to the disclosure of documents, I cannot say that Stafford's fears are unjustified. The difficulty is that if I just give it a licence for the above four drawings and other pre-1989 drawings later come to light, it would then be too late to apply for a licence in respect of the newly-produced drawings. On the other hand, if I give it a licence that does not identify specific drawings - eg "all pre-1989 drawings relating to the Lite Beam, Mini Beam, Maxi Beam and Ground Support ranges" - it cannot calculate the royalty due because it does not know which of the products it has been making fall within the scope of the licence.

28. I can see three possibilities. One is for Stafford to hope that the principle of estoppel would prevent Mr Wood enforcing his rights in any further drawings that come to light. I do not regard this as very fair on Stafford because of the continuing uncertainty it would involve. The second is to leave my decision open to the extent that Stafford would be at liberty to come back with a request to add extra drawings to the schedule at some later stage. This again does not seem very fair on Stafford because it leaves it with ongoing uncertainties about what its financial liabilities might be. The third option is to grant Stafford a royalty-free licence in respect of any further drawings that may come to light. This seems to me the most

satisfactory option. If Mr Wood has indeed now disclosed all relevant drawings, he will not lose out by this, and if he has not, quite frankly he would deserve little sympathy. Accordingly that is what I will do.

### **Prior Negotiation**

29. There is one further preliminary point on which I ought to comment before moving on to the licence itself. I understood Dr Bainbridge at one point during the hearing to say that Mr Wood believed that Stafford ought to have approached him before applying to the comptroller to settle the terms of a licence of right. A similar point was made in Mr Wood's letters to Stafford's solicitors and to this Office, both on 18 November 1996, where he said that the comptroller can arbitrate only if negotiations have reached stalemate. I presume Mr Wood bases these comments on section 237(2) of the 1988 Act which says:

"The terms of the licence shall, *in default of agreement*, be settled by the comptroller."  
(my emphasis).

30. I do not take this provision to mean that the parties must have entered into negotiations before approaching the comptroller. Whilst neither side referred me to any case law, I am supported in my view by the decision of Falconer J in *Roussel-Uclaf (Clemence & Le Martret's) Patent [1987] RPC 109* at pp.116,117. This concerned the similar wording used in section 46(3) of the Patents Act 1977:

"any person shall . . . be entitled as of right to a licence under the patent on such terms as may be settled by agreement or, in default of agreement, by the comptroller on application"

Falconer J supported the line taken by Whitford J in an even earlier case under the corresponding provisions of the Patents Act 1949, when he held that an attempt to reach agreement was not a precondition to the making of a licence of right application. In my view

the reasoning used by these two learned judges applies with equal force to section 237(2) of the 1988 Act. Accordingly I reject the argument that the comptroller has no jurisdiction in this case because the parties were not in default of agreement.

## **Royalty**

31. Having dealt with these preliminary points, I will now turn to the question of royalty. I am now, of course, talking only about the four drawings to be identified specifically in the schedule to the licence. Neither side addressed me as to the basis on which the terms of the licence, and in particular, the royalty, should be settled. However, in every case so far in which the comptroller has settled the terms of a licence of right under the 1988 Act the basis has been what would be agreed between a willing licensor and a willing licensee. In the absence of any arguments to the contrary, I shall assume that I should use the same basis in settling the present licence.

32. The first issue in any consideration of royalty is to decide on what the royalty should be levied. Indeed, this is often more important than the royalty rate itself. In the present case, however, there seems to be no dispute that the royalty should be a percentage of the sale price of the relevant trussed beams, towers and other elements sold by the licensee, and I shall proceed on that basis.

33. I now turn to the royalty rate. In their initial draft licence Stafford offered 3%. Mr Wood objected that this was far too low, but did not offer an alternative figure until fairly late in the proceedings, when he proposed 12.5%. As discussed above, the focus during the evidence rounds had been very much on other issues and consequently very little evidence has been put forward to support either of these figures or help me decide what the appropriate royalty rate should be. I will therefore have to arrive at a figure largely on the basis of the arguments advanced at the hearing.

34. In licence of right cases, the parties usually invite the comptroller to arrive at the

royalty by considering the profits available and/or by looking at the royalties in comparable licences. In the present case, neither side has presented any evidence of the profits available or comparable licences. At the hearing Dr Bainbridge wished to make representations about comparable licences that he said had been sought or existed, but Mr Alexander objected that no evidence of them had been provided and therefore that they could not be taken into account. I agree. Without any evidence, any representations Dr Bainbridge wished to make would merely be unsubstantiated assertions which could be afforded no weight. Added to which as a matter of natural justice, the applicant would have had no opportunity to consider them and it would unfairly prejudice its case to allow them to be argued. I did not therefore admit them as part of Dr Bainbridge's case.

35. All I actually have are arguments from Mr Alexander as to why the royalty rate should be low and from Dr Bainbridge as to why it should be high, plus arguments from both sides about what deductions can be drawn from the actual figures that have been used in other licence of right cases and from the royalty that Slick themselves apparently pay to Mr Wood. I shall start with the latter.

36. In his notice of objection, Mr Wood had stated that he receives from Slick a licence fee of 7.5% on the "turnover on the sale of products" and that in the light of this the 3% offered by Stafford was "insulting". Mr Alexander argued that this 7.5% did not provide a basis for calculating the royalty. He said that Mr Wood is a director of Slick and can arrange for Slick to pay him whatever he wishes, and there was nothing to show whether Mr Wood was being remunerated simply for copyright or for other things as well. Consequently one could put no reliance on the 7.5% figure, other than, he suggested, to regard it as the maximum possible amount.

37. I agree that for the 7.5% paid to Mr Wood by Slick to provide a basis for the present licence, it would have to be shown that the arrangement between Mr Wood and Slick was at arm's length. However, Mr Wood is both the chairman and a director of the Slick companies, and does appear to have a high degree of control over their activities. In my view, the 7.5% fee cannot therefore be taken to represent what would have been agreed between them had the

relationship been at arm's length. Mr Wood has put in no evidence to set out the basis on which the 7.5% figure was arrived at. In answer to Mr Alexander's point about the 7.5% fee possibly subsuming other remuneration, Dr Bainbridge began to argue that the fee indeed covered copyright alone, and that Mr Wood receives directors fees in addition. However there is no evidence to support that contention, and I am therefore unable to give it any weight. Even if the fee were all by way of a royalty, the primary difficulty remains that the arrangement cannot be regarded as at arm's length. Consequently, I consider that this cannot be regarded as a comparable arrangement and I can attach no weight to it in deciding an appropriate royalty in the present licence of right.

38. I would observe that it is not even necessarily the case, as Mr Alexander argued, that the 7.5% fee must represent the maximum possible royalty under the present licence. A non-arm's length arrangement could in some circumstances result in Mr Wood receiving less for use of his copyright than its true value to Slick if for example he was concerned to assist the company at his own expense. However I should say that I think this is unlikely in the present case where the evidence, and I am thinking of the recent considerable developments in Slick's product range evidenced by Professor Gough, and the number of competitor companies, suggests that both Slick's operation and the market at large are in a healthy condition.

39. Dr Bainbridge also took me to the prior licences of right cases of *Pioneer Oil Tools Ltd's Application [1997] RPC573* ("*Pioneer*") and *Roger Bance and R Bance & Co Ltd's Application [1996] RPC667* ("*Bance*") settled under the 1988 Act, and also *Gerber Garment Technology Inc v Lectra Systems Ltd and anr [1995] RPC383* ("*Gerber*") which was an infringement action under the Patents Act 1977 involving calculation of a royalty as though for a licence of right in order to assess damages. I was not entirely clear what point Dr Bainbridge was making in relation to these cases. He took me, with approval, to the statements in these decisions which rejected the proposition that licences of right should be settled on the basis of a "going rate". However he seemed in reality to be putting forward the amounts settled in these cases as a kind of going rate of his own on which the present royalty might be based. The royalty rate settled in *Pioneer* was 9% of the net sales price. That in *Bance* was 5% of a notional price that was, in fact, higher than the real sales price - the "true"

royalty rate based on net sales price was more like 7% (and 6.75% for spare parts). In *Gerber* the rate was effectively 15% of net sales price.

40. Dr Bainbridge went on to argue that none of these cases involved articles with "eye-appeal", while the Slick trusses were dependent on their attractive appearance for their uses in applications where this was important, namely stage shows, product launches and other media events. Since the Slick trusses were useful industrial articles and in addition had significant eye-appeal, they should be entitled to a higher royalty than the articles in these prior cases which were merely industrial.

41. I feel Dr Bainbridge's argument that *Pioneer*, *Bance* and *Gerber* point me to the correct level of royalty for the present case needs to be treated with some caution. In particular, *Gerber* was not a normal licence arrangement but directed to the settlement of damages in a patent infringement action. Further, it was a licence for a patent, not for design copyright and it concerned products that are far removed in character from the present products, relating as it did to very small numbers of very expensive machines. I therefore consider it would be unsafe to draw conclusions from *Gerber* about the appropriate royalty in the present case. *Pioneer* and *Bance* are more relevant in that they were copyright licences of right. However both were in respect of complex engineering products in relatively high value, rather specialised industries and so I am uneasy about taking them as a sort of standard by which the present case should be decided. They may not represent what is appropriate in other copyright licences of right.

42. What is important is that the royalty in each of these cases was decided by considering the particular circumstances in relation to the industry, the activities of the parties, their profits and costs and so on. To underline this point, I would observe that since *Pioneer* two<sup>2</sup> more copyright licences of right have been settled (although I do not think the parties were aware of them at the hearing), one with a rate of 4% and the other with a rate that varied between 1½%

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<sup>2</sup> Strictly, three, but as the third, *Wyeth SPA's Application* (unreported, SRIS O/148/98) was unopposed and not based on a percentage royalty, it affords no assistance in the present case.

and 7% depending on the article sold. These cases are *E-UK Controls Ltd's Application [1998] RPC 833*, concerned with electrical control buttons, and *Sterling Fluid Systems Ltd's Application* (unreported decisions, SRIS O/195/98 and O/213/98), concerned with contractors' pumps. Since these two cases are concerned with less-specialised technology and markets than *Pioneer*, *Bance* or *Gerber*, they are probably more pertinent to the present case than any of the latter.

43. On Dr Bainbridge's "eye-appeal" argument, he confirmed that he was not asserting there was any statutory basis which suggested that an article with eye-appeal should be dealt with any differently from any other article under paragraph 19 of schedule 1 to the 1988 Act. His point was simply that an attractive article was worth more than a merely utilitarian one. Dr Bainbridge did not elaborate on the argument, but I assume he was implying that people would be more likely to buy it and hence the licensee could charge more for it. This will result in higher profits for the licensee, and therefore a higher royalty is appropriate. For this argument to be persuasive it seems to me that the articles would need to be significantly better looking than competitor products, to give them a distinctive edge in the market which the licensee could then exploit to generate higher profits. In fact, I do not think the Slick products are differentiated from the competition in this way since all the products that I have been shown look very much like one another. Consequently, I do not consider that it is a relevant consideration in setting the royalty rate in this case.

44. Mr Alexander stressed that one had to be clear that what was being recompensed in the licence was the value of the owner's copyright. The designs were simple mechanical articles, really just an attractive form of scaffolding and they were far from unique, as evidenced by the large number of competitors making very similar products. He took me to catalogues of comparable ranges of similar products from other manufacturers which had been exhibited in evidence. The catalogues show extensive ranges of truss systems by four manufacturers: Total, Prolyte, ATC and Tomcat. These demonstrate two things very clearly, firstly that there is a good deal of competition from other manufacturers each of whom make very similar ranges of articles to those made by Slick, and secondly that, while there are detail differences, particularly in the connectors, in their overall arrangement and appearance, there



is a high degree of similarity between the modules of one manufacturer and those of another.

45. Dr Bainbridge began to advance the argument that Mr Wood had been the first to design such articles and the other manufacturers were later entrants into the market. However I was not able to admit this argument as there was no evidence to support it. Even if it were the case, I do not believe it would affect the issue materially. The licence is to operate in the mature market as it is today and if it is to do so on the basis of what would be agreed between a willing licensor and licensee, it should take account of current market factors. Generally, as in the present case, where there is a low level of differentiation between products, it will be difficult in the absence of unusual factors for any of them to sustain a large price differential over the others, and I consider that this factor argues for a lower royalty.

46. Mr Alexander also submitted that the royalty was to recompense Mr Wood for the skill and effort he had put into the designs, and that since there was no evidence that the designs had involved the expenditure of any significant skill or effort that pointed to a low royalty. Dr Bainbridge disagreed, saying that the effort involved was irrelevant to the commercial value of the end result. Whilst needing to cover the cost of developing the designs might be a factor in some cases, in the context of the present case I feel Dr Bainbridge is right. What would matter here in negotiations between willing parties is the commercial value of the designs.

47. A further point put forward by Mr Alexander was that the design input to the articles as a whole was low, since in his view, the main tubes and diagonal braces would not require any significant design work and it is only the connectors which are subject to any real design. Consequently a royalty of 3% in respect of the whole value of each article would be generous. In reply to this point, Dr Bainbridge said that it was not possible to make the articles by making the connectors alone. They included the whole system of main tubes and braces as well. I think this is a valid point. It is necessary for the whole assembly of truss modules to fit together properly and provide an effective support structure. This involves the entire interface between each module, that is to say the geometry of the main tube ends, as well as the connectors themselves, and it also includes the features that contribute to the strength of the

system when assembled, such as tube wall thickness and brace positioning. The trusses are integral structures and the design involves more than just the connectors if they are to operate together effectively. Moreover, copyright subsists in the whole design document, not just in those aspects which can be considered to be particularly valuable.

48. Mr Alexander also argued that a low royalty was necessary since Stafford were principally selling through the company Camco into Germany where there is no comparable protection for Mr Wood's designs to that which exists in the UK, and competitors can copy freely without having to pay any royalty. I agree with this to a degree, since it is another factor which the willing licensor and licensee might take into account. I also have in mind however, that it is open to Stafford and Camco to decide where they source, manufacture and sell their products. If they decide to manufacture in the UK where there is IP protection for the design, and therefore have to pay a royalty for its use, that is a factor which they are aware of in setting up their operation and it is presumably offset by the advantages of taking a licence of right from Mr Wood which they will also have in mind. Further, the licence will not restrict Stafford to selling to the German market - they will also be able to sell here. In short, I consider that the competitive position in Germany, where most sales so far have apparently been made, is a factor that would tend to reduce the royalty that would be agreed by willing parties, but it would reduce it by a modest amount, not a large amount.

49. Finally, Mr Alexander drew my attention to the following statement in an affidavit by one of Stafford's directors, Brian Prew which, he said, had not been addressed by any of the evidence from the other side:

“. . . it is my understanding, based on my long experience in design engineering, that, given the competition in products of this kind and the consequent reduction of margins which has occurred in recent years, the “going rate” for a royalty on products such as the Application Products is in the region of 3% and not higher.”

Whilst it is correct to say the other side have not produced evidence of licence deals to refute what Mr Prew says here, I feel I can attach negligible weight to his statement. He produces

no evidence to support it, and his wording implies that this information does not come from his own personal knowledge but has been passed on from others. In these circumstances, it forms a very shaky basis on which to build.

50. In the light of developments since the substantive hearing, Stafford have since argued that as the schedule of copyrights to be licensed now “consisted of only four drawings each of which is of the most rudimentary nature, the royalty rate ... should be reduced to no more than 1%.” I think this argument is misconceived. The drawings are fairly rudimentary, but they are no more so than the drawings in the brochure from which Stafford were originally working, so in my judgement the change to the schedule does not affect the arguments in respect of royalty rate. However, the small number of drawings probably mean that the licence will operate in respect of fewer of Stafford’s products than they might originally have thought would be the case.

51. In summary, therefore, I consider the royalty level should be influenced by the fact that the articles in question are straightforward mechanical components competing against a number of similar products and that a large proportion of the value of the products is in the material of which they are constructed and the manufacturing process, rather than the design. The position in Germany is also of some relevance. In such circumstances a willing licensee and licensor would, I am sure, settle on a relatively low royalty.

52. Of course this does not mean the royalty should be minimal. There is clearly some reasonably significant benefit to Stafford in producing articles to Mr Wood's designs. It would be simple enough if there were no such advantage, for them to branch out on their own and launch a competing range of products of their own design. Were the parties negotiating as a willing licensor and willing licensee, the benefit to Stafford of taking the licence would ensure the rate agreed would not be minimal. However, for the reasons I have given I consider it would be relatively low.

53. What, though, counts as “relatively low”? In *E-UK Controls* I expressed unease (on p.841) about working from the oft-quoted mechanical patent norm of 5-7%. I pointed out

that even in a patent licence of right the norm tended to be used only when all else had failed, for the reasons identified in *Gerber*, and therefore took the view that a norm should be a last resort in design copyright and design right cases too. Further, I did not feel there was adequate justification for assuming the patent norm could be applied to design copyright and design right. At that stage there had only been two design copyright or design right licences settled - *Pioneer* and *Bance* - and I did not feel two cases were sufficient to establish a norm.

54. In the present case I now find myself in the position where all else has failed. The absence of any evidence enabling me to assess the royalty via the more normal routes of looking at comparable licences or the profits available leaves me with no option but to work from some sort of norm. The one saving grace is that I am now in a slightly better position than I was in *E-UK Controls* in that four copyright licences have now been settled rather than just two. Because they show a wide spread of rates I would be reluctant to deduce any “norm” from them, but they do give a guide as to the range of royalties that are likely to be appropriate for design copyright and design right. Given my finding that the royalty should be relatively low, I consider that the appropriate rate is 4%.

### **Other Provisions of the Licence**

55. I will now turn to the remainder of the licence clauses, taking into account both what was put forward in the draft licence submitted by Stafford in its application, and the proposals put forward in Mr Wood's letter of 12 September 1998.

#### *Part 1: Introduction*

56. I will straight away observe that the licence of right is a licence imposed by the comptroller and is not an agreement between the parties. I have therefore amended the wording of the introduction to reflect this and replaced "agreement" with "licence" wherever it appears elsewhere in the licence. I have also amended clause 1.2 to reflect the actual position under the 1988 Act, since it is not copyright in the designs which expired on 31 July 1999 but

the right to prevent the making of articles to the designs.

*Clause 2.1: Definitions*

57. The parties agreed to the replacement of "the Licensed Products" by "the Licensed Articles", as proposed by Mr Wood, in order to conform with the wording of the 1988 Act in section 51. I have made a similar amendment wherever else in the licence these words appear.

58. The draft licence contains the expression "the Design Rights" to refer to the rights in respect of the reproduction of copyright by the making of articles, conferred by the suspension of section 51 of the 1988 Act, with which the present licence of right is concerned. Given the dispute over whether "design right" proper subsists in the post-1989 modifications, I have changed this expression to "the Rights in the Designs", to avoid any possible confusion and have inserted a suitable definition in this clause.

59. I have removed the definitions of "Year", "Quarter", "Quarterly" and "the Term" since these expressions no longer need to appear in the licence as its term has already expired.

*Part 3: The grant*

60. At the hearing, the parties agreed that the originally-proposed wording for clause 3.1 should be replaced by two clauses corresponding to clauses 4.1 and 4.2 in the *Pioneer* licence. This I have done, renumbering the subsequent clauses.

61. Mr Wood had objected to clause 3.2 (a) of the draft licence which calculated the net sales value of articles made under sub-contract by another manufacturer for Stafford to be the price charged to Stafford rather than the price Stafford charged to customers. At the hearing Mr Alexander conceded that this provision ought to be deleted, and accordingly I have done so.

62. The parties agreed to the insertion of a clause requiring the licensee to inform the licensor of the identity of any sub-contractor, and I have inserted this under clause 3.3.

63. Mr Alexander said Stafford was prepared to accept a limitation proposed by Mr Wood that sub-licensing is only permitted in respect of sub-contractors making the licensed articles for the Licensee. I have dealt with this by omitting the original clause 3.3 and amending what was clause 3.2, with consequential amendments in other parts of the licence.

*Clause 4.2: On what is royalty payable?*

64. Mr Wood proposed an addition to this clause specifying that royalties should be payable where articles were given away free, or sold below market value and that the royalty should in that event be based on a reasonable market value. While sympathising with the intention, and recognising that such clauses are sometimes inserted where there is a concern that articles may be disposed of as loss-leaders, there is a practical difficulty in establishing a reasonable market value in the present case. I have no schedule of Stafford's articles before me. No price list has been made available by either Slick or Stafford upon which the reasonable market value of any particular item could be agreed, and it is not even certain that Stafford manufacture articles which correspond precisely with Slick's. Dr Bainbridge said Mr Wood was concerned that heavy discounting such as for loss-leader purposes would result in Mr Wood losing revenue. However when I pressed him, he was unable to say that he thought this was likely. Indeed, Mr Alexander said it was not likely as Stafford's sales were essentially to Camco so there was little scope for loss-leader marketing. Mr Alexander also observed that Stafford and Camco need to be able to offer discounts to customers as they may otherwise lose business, and if they lost business neither Stafford nor Mr Wood would receive anything at all. It is also the case that at the time of the hearing, two thirds of the term of the licence had already passed, and Dr Bainbridge did not say that this concern attached to the royalties already incurred. The whole term has now passed of course. I have no further information on what has happened in the interim but assume, since I have received no representations on this matter from the parties, that there has been no substantial change. I offered Dr Bainbridge the opportunity to propose wording that would avoid the difficulties

that were discussed, but he did not put any such wording forward for my consideration. I consequently consider on balance, that no such provision should be included.

65. Mr Alexander said Stafford was content with the deletion as proposed by Mr Wood, of the part of Clause 4.2 (b) which related to no royalty being due for "spare parts", since there were in reality no items which could be identified as spare parts. Stafford did wish to retain the part of clause 4.2 (b) which states that no royalty is due for replacement parts however. I agree this is justified since this provision would cover the situation where a faulty part or one damaged in transit etc is replaced. Stafford would receive only a single payment from the customer in these circumstances and it is therefore appropriate that only a single royalty should be due. I have therefore retained this clause, but substituting "replacements (supplied free of charge)" for "replacement parts".

66. The deletion of clause 4.2 (c) endeavouring to cover "must fit, must match" was agreed between the parties, Mr Alexander accepting that this was a contentious clause in view of the lack of agreement over what fell within the scope of the licence. I have therefore omitted it.

#### *Clause 4.3: Back Royalties*

67. Since the whole of the term of the licence has now passed, the original clause 4.3 on the timing of payments is no longer relevant. All that is now needed is a clause specifying the period within which the back royalties must be paid. I consider Mr Wood is entitled to receive the back royalties as soon as is reasonably practicable. However, the calculation of what royalties are due will be a matter that will need some deliberation by Stafford, in the light of the design drawings that now form the schedule to this licence, and will require Stafford to review sales over a lengthy period. At the hearing, I agreed that the period for calculation of back royalties would be determined after the design drawings had been produced, on the basis of submissions by the parties. The parties have now agreed that the back royalties should be paid by the end of March 2000.

68. Mr Alexander did not agree to the final sentence of Mr Wood's proposed clause on back royalties. I agree that it is unnecessary and have omitted it.

*Clause 5(b): Inspecting the accounts*

69. The parties agreed during the hearing that two inspections should be allowed in the year or so that the licence had still to run. As the licence has now expired, there will only be a single payment of royalties and so a single inspection should suffice. Accordingly I have replaced the original proposal for yearly inspections with a provision allowing a single inspection.

*Clause 6: Duration*

70. I have retained clause 6 in the draft licence largely in its original form, specifying the duration from the application date to the termination of the rights on 31 July 1999. The application date is 16 October 1999, that is the date the application was received at the Patent Office.

*Termination for Breach and ADR*

71. There was argument as to the inclusion of a "termination for breach" clause at the hearing, but this is now of no concern since the term of the licence is already complete.

72. Dr Bainbridge proposed that the licence should give effect to some form of alternative dispute resolution (ADR) in the event of a disagreement arising. Mr Alexander did not consider this would be helpful, and preferred certainty under the terms of the licence itself. If one party is not inclined to agree to ADR, I do not consider it is something I can impose. Consequently it is my view that in this case there should be no ADR clause.



### *Warranty/indemnity*

73. Mr Wood proposed the insertion of a sort of negative warranty clause indicating that the Licensor did not warrant that the Licensee was entitled to do any act under the licence without infringing the rights of any third party. Mr Alexander objected to it. The clause seems to me to be a statement of the obvious, because I can see no obvious reason for any third party to imagine that the present licence would warrant the Licensee to infringe their rights. Further, I am at a loss to see what meaning a warranty clause like this can have when it appears in a licence which is being imposed by the comptroller and is therefore not being signed by the person purportedly giving the warranty. When I asked Dr Bainbridge whether there was a particular intention behind the proposal, he said that he had included it simply because he had noticed it was present in the licence settled in *Bance*. That is quite correct, but the clause was not considered in *Bance* because it was not disputed. It has been disputed in the present case, so I need to make a ruling on it. It seems to me it is both unnecessary and inappropriate, and I therefore decline to include it.

74. Mr Wood's proposal for this "negative" warranty, however, prompted Mr Alexander to argue for a different warranty, arising from lingering concerns about the true ownership of the copyrights in question. To understand these concerns, one needs to go back to the launch of these proceedings. When the applicant made its initial application, it said it did not know whether copyright in the designs was owned by Mr Wood himself, or by either of the Slick companies, or by Trader Horn Welding Services Limited, whom it believed was involved with the original designs, or by Mr Wood's former wife, Mrs Wood. It was only subsequently, in a letter of 21 November 1996, that Mr Wood asserted that all the relevant copyrights belong to him.

75. The application proceeded on the basis that this was indeed correct, but Mr Alexander made clear at the hearing that having seen Mr Wood's proposed warranty, he was now concerned that one of the Slick companies might pop up after the licence had been settled claiming that they, and not Mr Wood, owned the copyrights. Mr Alexander felt Stafford was entitled to rely on Mr Wood's declaration of ownership to indemnify them against any such

action by a third party and consequently considered it would be appropriate for Mr Wood to warrant that he owned copyright in the design documents.

76. I observe that when the application was originally made the comptroller required it to be served not only on Mr Wood but also on both the Slick companies. Those companies had the opportunity to claim ownership but declined to do so. Instead Mr Wood, writing as Chairman of Slick Systems International on the headed paper of that company, asserted that Mr Wood personally owned the copyrights and had merely licensed them to the company. Against this background, it seems to me that it would be very difficult for the Slick companies to step in now and claim ownership. This should provide a degree of reassurance but the existence of other possible owners may leave some residual doubt, particularly as further doubt has now been cast on Mr Wood's ownership of the hand-drawn drawings. Stafford feels it is not clear that Mr Wood is the owner of copyright in the first three of the drawings, but Mr Wood insists he is. This reinforces me in the view that Stafford should be able to rely on Mr Wood's assurance and that if possible I ought to make some provision for this.

77. Mr Alexander accepted that for a warranty to have any effect, it would be necessary for Mr Wood to sign it and that it would therefore not be sufficient to simply write a warranty into the licence. However, I can include a clause requiring Mr Wood to indemnify Stafford in the event that any of the copyrights turns out not to belong to him, and I have done so by inserting a new clause 8 and renumbering the subsequent clauses.

#### *The royalty-free licence*

78. All the above comments on detailed terms have been directed at the licence for the four identified drawings. Insofar as they apply, I consider that the same terms should apply in the event that a royalty-free licence comes into play as the result of further pre-1989 drawings coming to light. Parts 4 and 5 of the appended licence would, of course, be irrelevant.

## **The Licence**

79. Having considered the evidence and arguments before me and taking account of the findings I have made above, I order that Mr Wood grant to Stafford a licence in respect of the four specific drawings I have identified in the terms of the Licence of Right appended to, and forming part of, this decision.

80. I further order that Mr Wood grant Stafford a royalty-free Licence in respect of any other design documents made prior to 1 August 1989 and relating to the Lite Beam, Mini Beam, Maxi Beam and Ground Support ranges. Insofar as they are applicable, the terms of parts 1 to 3 and 6 to 9 of the appended Licence shall apply equally to this additional royalty-free Licence.

## **Costs**

81. I will now turn to the question of costs. In a letter dated 11 August 1999 Stafford say that the conduct of Mr Wood has been such that I ought to award them full compensatory costs. It says that he has unnecessarily protracted proceedings and thus considerably increased costs, and that in virtually every respect his conduct has been unsatisfactory - identification of the drawings in question, putting forward wholly unrealistic terms and taking hopeless points such as whether I had jurisdiction to settle the licence. It says that the costs borne by Stafford up to 11 August on a solicitor and own client basis are £63,838.87.

82. I observe that Stafford's current position goes somewhat beyond the position it took at the substantive hearing. Then, Mr Alexander asked for (a) the costs of having to deal with Professor Gough's material about post-1989 changes and the pleading on contractual obligations, and (b) the extra costs incurred by Mr Wood's failure to supply drawings earlier, but was otherwise content to allow costs up to that date to lie where they fell. However, he reserved Stafford's position in respect of subsequent events, and I recognise that a lot has happened since then. On Mr Wood's side, at the hearing Dr Bainbridge said Professor

Gough's evidence was appropriate to the application, and that there was no obligation on Mr Wood to produce drawings, and that each side should bear its own costs. Mr Wood has made no subsequent comment on costs.

83. I have the power to award costs by virtue of rule 22(1) of the Design Right (Proceedings before Comptroller) Rules 1989, which reads:

“The Comptroller may, in respect of any proceedings, by order award such costs or, in Scotland, such expenses as he considers reasonable and direct how, to what party and from what parties they are to be paid.”

84. Whilst this gives me wide discretion, it is normal practice in proceedings before the comptroller to award the winning side just a contribution towards costs, based on a published scale. However, the comptroller is not bound to adhere to the scale. In *Rizla's Application [1993] RPC 365* the hearing officer did deviate from the scale by awarding full compensatory costs. In that particular case the hearing officer was overturned on appeal, but in overturning him the Deputy Judge said at page 374:

“As a matter of jurisdiction, I entertain no doubt that if the Comptroller were of the view that a case had been brought without any *bona fide* belief that it was soundly based or if in any other way he were satisfied that his jurisdiction was being used other than for the purpose of resolving genuine disputes, he has the power to order compensatory costs. It would be a strange result if the Comptroller were powerless to order more than a contribution from a party who had clearly abused the Comptroller's jurisdiction.”

Later, on page 377, he said:

“Counsel was unable to refer me to any reported case where such a strong order for costs has been made by the Comptroller and therefore there is no established yardstick to measure what might be regarded as exceptional. I believe a case such as the present

can only be regarded as exceptional if it can be shown that the losing party has abused the process of the Comptroller by commencing or maintaining a case without a genuine belief that there is an issue to be tried. In my view, this is not shown to be such a case. There are of course a large number of other circumstances such as deliberate delay, unnecessary adjournments *etc.* where the Comptroller will be entitled to award compensatory costs, but it is unnecessary to attempt to define what is clearly a wide discretion.”

85. Whilst I recognise some of this is *obiter*, it nevertheless provides clear guidance as to the approach I should adopt. There is, though, another consideration which is peculiar to cases of the present type. Although I certainly have the power to award costs, it is usual in the settlement of a licence of right for there to be no award as to costs, leaving each side to bear its own. The basis for this practice is that in licence of right cases usually neither side can be said to have won or lost. This is why Mr Wood argued each side should bear its own costs.

86. It is against this background that I must consider costs in the present case. In effect, Stafford is inviting me to deviate from normal practice in two respects, by awarding costs even though this is a licence of right case and by awarding compensatory, rather than just scale, costs. In my view, in seeking costs Stafford should be limited to what Mr Alexander sought at the substantive hearing so far as costs up to that date are concerned, but should not be so limited in respect of what has happened since then. I also feel it must expect to bear the costs it would have borne had this case proceeded in what I might call a “normal” way.

87. On that basis, I will consider first the question of costs incurred by the raising of irrelevant issues. I do not consider this has been a serious problem since the substantive hearing. Before then, as will be apparent from earlier parts of this decision, I consider Mr Wood raised a number of irrelevant issues and arguments, and I am sure these have absorbed time and diverted Stafford from the central matters. However, Mr Alexander only sought costs in respect of Professor’s Gough’s evidence and the contractual obligations issue, so those are the only matters I will consider.

88. Mr Wood was largely unrepresented during the proceedings and while the situation may have been exacerbated by a lack of diligence on Mr Wood's part, to a significant extent the raising of irrelevant issues was, I suspect, due to Mr Wood's lack of familiarity with the law and legal procedures. I do not think this wholly excuses Mr Wood's behaviour because he does seem to have had some degree of legal advice even though he has not formally been represented. However, I feel the introduction of Professor Gough's evidence and the pleading on contractual obligations probably did stem largely from ignorance rather than any malicious intent, and the comptroller has always been reluctant to penalise private litigants for ignorance of the law, even though it may be hard on the other party. Further, Mr Alexander conceded that one of these issues - contractual obligations - had not taken very long to deal with. I have therefore decided to make no award in respect of any costs incurred by Stafford in respect of these matters.

89. I will now turn to the question of costs resulting from the other aspects of Mr Wood's conduct which Stafford say has been unsatisfactory. It is certainly the case that there have been numerous instances in which Mr Wood has failed to respond, has delayed responding, and/or has provided an unsatisfactory response which has simply prompted more correspondence. Indeed, I could almost say it is hard to find instances in which Mr Wood has filed a response that has been both satisfactory and on time. The problems started early on. My preliminary decision of 9 December 1997 was occasioned by Mr Wood failing to file evidence at the appropriate time followed by a catalogue of delays, failure to file sworn evidence and absence of explanation which led Stafford to oppose the admission of that evidence. Such delays and failures on Mr Wood's part continued up to the substantive hearing and, if anything, on an even worse scale thereafter, right up to now. In my procedural decision of 8 March 1999, for example, I found it necessary to be very critical of Mr Wood's failure to deal with matters, and his recent extremely-late challenge to the affidavits of Messrs Marsh and Stöcker after ignoring earlier invitations to respond is but the latest example of his behaviour. In my view, he has caused quite unnecessary and large delays throughout these proceedings, and this has unquestionably increased the cost of the action to Stafford significantly.

90. In saying this, I am aware that Mr Wood faced serious personal problems for a period with the illness and, sadly, subsequent death of his wife. However, even on the most generous of approaches these problems cannot reasonably have accounted for more than a small fraction of the delays for which he has been responsible.

91. I am even more concerned at the fact that since the hearing Mr Wood has not honestly represented his position to Stafford or to the Patent Office. In my Order of 5 October 1998 following the hearing, I required Mr Wood to “draw up a schedule of all drawings in his custody, possession or control which relate to the Slick Systems products that have been identified in this application for a Licence of Right and which were made before 1 August 1989”, and serve it on the Patent Office and on Stafford. On 30 October 1998, in response to this Order, he submitted the 17 CAD drawings, stating that they were “all the drawings in his custody, possession or control” in the relevant category. We now know this statement was untrue, because on 13 April 1999 he filed the further, hand-drawn pre-1989 drawings. Mr Wood was in clear breach of my Order when he withheld these further drawings in his 30 October filing, and he has provided no explanation, or even apology, for so doing. Further, Stafford have supplied persuasive evidence, which I have treated as unchallenged, that the 17 drawings he did file were not pre-1989.

92. I consider Mr Wood’s failure to comply with my Order and the misrepresentation of the 30 October drawings to be very serious matters. There is no doubt they have given rise to considerable delay and extra expense for Stafford. Indeed, the truth has only emerged because of a lot of work on Stafford’s part. If Mr Wood had filed the six hand-made drawings immediately after my original Order, the licence could have been issued in November 1998 and the time and effort expended since then saved. I think that Mr Wood is fully culpable for creating this further work.

93. I have come to the conclusion that Mr Wood’s actions and inactions were way beyond mere dilatoriness or carelessness, and arose from a substantial and deliberate abuse of process by Mr Wood. Accordingly, I consider this is one of those rare cases in which I ought to

depart from normal practice and not merely award costs in respect of some aspects of the case but award them on a compensatory basis. To do so would, I feel, be fully consistent with the Deputy Judge's comments in *Rizla*. In referring to abuse in *Rizla*, the Deputy Judge, it is true, had in mind abuse by commencing or maintaining hopeless issues and that is not what I am concerned with here. However, taking the Deputy Judge's comments as a whole, I do not believe for one moment he was suggesting that was the only type of abuse for which compensatory costs would be appropriate. Indeed, he went on specifically to mention "deliberate delay" as a possible justification for compensatory costs. I have therefore decided that Mr Wood should be required to compensate Stafford more-or-less fully for their costs since November 1998, and should also make some contribution towards the extra costs Stafford incurred before then as a result of Mr Wood's delays and failures.

94. Stafford have said that its costs up to 11 August 1999 were £63,838.87. I doubt whether it has incurred any significant costs since then. I could try to estimate the actual "extra" costs incurred by Stafford by asking for a full breakdown of that figure, but I do not think it would be appropriate to go into such detail as there is bound to be a significant element of rough justice in deciding what costs were "extra". I have no evidence to support the figure Stafford has given but equally no reason to disbelieve it as it seems reasonable, and so I will accept it as a starting point. I estimate that perhaps one eighth of Stafford's expenses, say £8000, will have been incurred since November 1998 and I consider Mr Wood should be liable for virtually all of this. I also consider he should make some contribution towards the costs before that date, and £3,000 seems an appropriate amount. I therefore order Mr Wood to pay Stafford costs of £11,000.

95. It would be sensible for these costs to be set against any royalty due from Stafford. Accordingly, I direct that these costs shall become due and be paid by 31 March 2000, ie the same date as the royalties become due. That will enable one to be set against the other so that only the net amount need change hands.



## **Appeal**

96. Under section 249 of the 1988 Act, any appeal from this decision lies to the Appeal Tribunal constituted under section 28 of the Registered Designs Act 1949. Since this decision is on a substantive matter, any appeal must be filed within six weeks.

Dated this 21st day of December 1999

**P HAYWARD**

Divisional Director, acting for the Comptroller

**THE PATENT OFFICE**

## **LICENCE OF RIGHT**

This licence has been settled by the Comptroller-General of Patents, Designs and Trade Marks under section 237 of the Copyright Designs and Patents Act 1988 and under paragraph 19(2) of Schedule 1 to that Act. The licence is between

(1) MR MICHAEL WOOD, Slick Systems International Ltd, Portland Street North, Leek, Staffordshire, ST3 6LA ("the Licensor"); and

(2) STAFFORD ENGINEERING SERVICES LIMITED, whose registered office is at Unit 7, Gainsborough Works, St Patrick's Place, Stafford ST16 2PN ("the Licensee").

### **1. INTRODUCTION**

- 1.1** The Licensor is the owner of copyright in the United Kingdom in respect of the Designs details of which are given in the Schedule to this Licence.
- 1.2** The Designs were made before 1st August 1989, and any right against copying by making articles to the Designs expired on 31 July 1999.
- 1.3** The Licensee wishes to be granted a licence of right, under section 237 of and paragraph 19(2) of Schedule 1 to the Copyright, Designs and Patents Act 1988, to manufacture and to have manufactured and to sell or otherwise deal in the Licensed Articles in the Territory (as those expressions are defined in this Licence)

### **2. INTERPRETATION**

- 2.1** In this Licence -

**"the Designs"** means the designs referred to in clause 1.1;

**"the Rights in the Designs"** means any right subsisting in the Territory conferred by paragraph 19 of schedule 1 to the Act against copying by making articles to the Designs;

**"the Licensed Articles"** means any articles manufactured by the Licensee or for the Licensee by any of its sub-contractors and to which any of the Designs is applied;

**"Net Sales Value"** means, in relation to any of the Licensed Articles, the price charged to the customer less

(a) any value added tax or other sales tax,

(b) any packaging, packing, freight, warehousing, carriage and insurance charges,

to the extent that any of those items are included in the price, and after deducting any allowances for lost or damaged merchandise or returns; provided that where any of the Licensed Articles is incorporated into a larger product, the Net Sales Value shall be the price that would have been charged to the customer if the Licensed Article in question had been sold on its own less any such deductions;

**"the Territory"** means the United Kingdom of Great Britain and Northern Ireland;

**2.2** Any reference in this Licence to

(a) a statute or a provision of a statute is a reference to that statute or provision as amended or re-enacted at the relevant time;

(b) "writing", or any cognate expression, includes a reference to any communication effected by telex, facsimile transmission or similar means.

**2.3** The headings in this Licence are for convenience only and shall not affect its interpretation.

### **3. GRANT OF LICENCE**

**3.1** The Licensor hereby grants to the Licensee a non-exclusive licence under the Rights in the Designs to do all acts which would be permitted by section 51 of the Copyright Designs and Patents Act 1988 had the design document(s) and/or model(s) in which the Rights in the Designs subsists been made after 31 July 1989.

**3.2** Nothing in this licence shall be construed as a licence to the Licensee under any other rights of the Licensor.

**3.3** The Licensee may sub-contract the manufacture of the Licensed Products to any person for supply to the Licensee, in which event

(a) the Licensee shall ensure that the sub-contractor shall comply with all the applicable provisions of this Licence as they apply to the Licensee; and

(b) subject thereto, any Licensed Articles so supplied shall be deemed for the purposes of this Licence to be manufactured by the Licensee.

(c) the Licensee shall inform the Licensor of the identity of any sub-contractor.

### **4. FINANCIAL PROVISIONS**

**4.1** In consideration of the rights granted under this Licence, the Licensee shall, subject to the following provisions, pay to the Licensor royalties at the rate of 4 (four) per cent of the Net Sales Value of all Licensed Articles which have been sold or otherwise disposed of on a commercial basis by the Licensee.

**4.2** For the avoidance of doubt no royalty shall be payable by the Licensee

(a) more than once in respect of the same Licensed Article; or

(b) in respect of any products which consist of replacements (supplied free of charge) for Licensed Articles previously supplied by the Licensee;

**4.3** All royalties payable on the Licensed Articles sold or otherwise disposed of by the Licensee in accordance with clause 4.1 above, from 16 October 1996 up to and including 31 July 1999, shall become due and shall be paid by the Licensee to the Licensor by 31 March 2000, such payment to be accompanied by a statement showing the quantities of Licensed Articles sold or otherwise disposed of on a commercial basis by the Licensee, the Net Sales Value in respect of those quantities of Licensed Articles and the amount of royalties payable.

**4.4** All royalties payable under this Licence shall be paid in pounds sterling, by sending a remittance for the same to the Licensor at its address shown herein or to such other address in the United Kingdom as the Licensor may specify in writing to the Licensee.

**4.5** Where any royalties are calculated in a currency other than sterling, they shall be converted into sterling by reference to the average of the relevant buying and selling rates of Midland Bank PLC ruling in London on the date of the comptroller's decision to which this Licence is appended.

**4.6** All royalties payable pursuant to this Licence are exclusive of value added tax, for which the Licensee shall be additionally liable, and which shall be payable subject to receipt by the Licensee of a duly completed VAT invoice.

## **5. ACCOUNTS**

The Licensee shall

(a) keep true and accurate accounts and records in sufficient detail to enable the amount of all royalties payable under this Licence to be determined;

(b) at the request of the Licensor, allow an independent chartered or certified accountant approved by the Licensor (or procure that such an accountant is allowed) at the Licensor's expense to inspect those accounts and records and, to the extent that they relate to the calculation of those royalties or other sums, to take copies of them, provided that

- (i) the inspection is made at a time reasonably convenient to the Licensee and on not less than 7 (seven) days' notice;
- (ii) the Licensee shall allow the inspection after the payment of royalties under clause 4.3 above, and shall not be required to allow any other such inspection;
- (iii) the Licensee shall be entitled to withhold or remove from any such accounts and records any such information as would enable the identity of the Licensee's customers to be ascertained; and
- (iv) any such accountant shall keep in confidence and not disclose to any other person (including the Licensor) any information disclosed to or obtained by the accountant in the course of or in connection with the inspection which relates to the Licensee or its business, affairs or customers, except to the extent to which any such information is required to be disclosed to the Licensor for the purposes of ensuring that the Licensee's obligations under this Licence have been complied with, or to the extent to which any such information is or thereafter becomes public knowledge through no fault of the accountant or the Licensor.

## **6. DURATION**

This Licence shall have effect from 16 October 1996 until the expiry of the Rights in the Designs on 31 July 1999.

## **7. NATURE OF LICENCE**

**7.1** This Licence is personal to the Licensee, which may not assign (except to a purchaser of its business or that part of its business comprising the manufacture of the Licensed Articles), mortgage, charge (otherwise than by way of floating charge) or (except as provided in clause 3.3) sub-license any of its rights hereunder, except with the prior written consent of the Licensor.

**7.2** Nothing in this Licence shall create, or be deemed to create, a partnership, or the relationship of principal and agent, between the parties.

**7.3** This Licence may not be modified except by an instrument in writing signed by the duly authorised representatives of the parties.

## **8. INDEMNITY**

The Licensor shall indemnify and hold the Licensee harmless from any claim, action or damages asserted by any third party on the grounds that the Licensor does not own the Rights in the Designs.

## **9. NOTICES**

**9.1** Any notice, statement or other information required or authorised by this Licence to be given by either party to the other shall be given by

(a) delivering it by hand;

- (b) sending it by pre-paid registered post or recorded delivery; or
- (c) sending it by telex, facsimile transmission or similar means of communication, provided that a confirming copy of it is sent as provided in paragraph (b) above to the other party within 24 hours after transmission;

to that party (in the case of a company, marked for the attention of "The Company Secretary", or such other officer of that party as is notified to the other party in writing for this purpose), at the address given at the commencement of this Licence, or such other address as is notified to the other party in writing from time to time for this purpose.

**9.2** Any notice, statement or other information given in the manner provided by

- (a) clause 9.1(a) which is not returned to the sender as undelivered shall be deemed to have been received on the date of delivery provided that delivery is made between the hours of 9.00 a.m. and 5.00 p.m. on a business day, failing which it shall be deemed to have been received on the next following business day;
- (b) clause 9.1(b) which is not returned to the sender as undelivered shall be deemed to have been received 48 hours after the letter containing it was posted; and in proving that any notice, statement or other information was so given it shall be necessary only to prove that it was properly addressed and posted (and, in the case of registered post, properly registered), and that it has not been returned to the sender;
- (c) clause 9.1(c) shall be deemed to have been received on the date of transmission provided that transmission is duly completed between the hours of 00.01 a.m. and 5.00p.m. on a business day, failing which it shall be deemed to have been received on the next following business day; and in proving that any notice or



information was so given by facsimile transmission it shall be necessary only to prove that a transmission report was produced by the sender's facsimile machine stating that the transmission was duly completed, and that a confirming copy of it was sent as provided in clause 9.1(b) to the other.

- 9.3** Service of any document for the purposes of any legal proceedings concerning or arising out of this Licence shall be effected by either party by causing it to be delivered to the other party at its address given at the commencement of this Licence (or any other address notified in writing from time to time for this purpose).

### **SCHEDULE to the Licence of Right**

The Designs recorded or embodied in the four sheets of drawings appended to Mr Wood's third Affidavit dated 6 April 1999 identified as LB1000, MB3W/B, Mini Beam and M24.