



BL O/189/04

16<sup>th</sup> June 2004

**PATENTS ACT 1977**

BETWEEN

(1) Roger Michael Elliott  
(2) BSP International Foundations Limited

Claimants

and

Expotech Limited

Defendant

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PROCEEDINGS

Application under section 13 of the Patents Act 1977, and  
reference under section 37, in respect of patent GB 2,351,111

HEARING OFFICER

P Hayward

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**DECISION**

*This decision was given orally. It is an interim decision, and is not the Hearing Officer's final decision on the form of order. The attached is the transcript of the decision as approved by the hearing officer.*

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THE PATENT OFFICE

Tribunal Room 1  
Harmsworth House  
13-15 Bouverie Street  
London EC4Y 8DP.

Wednesday, 16th June 2004

Before:

THE DIVISIONAL DIRECTOR  
(Mr. P. Hayward)  
(Sitting for the Comptroller-General of Patents, etc.)

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In the Matter of the Patents Act 1997

-and-

In the Matter of Patent No. 2,351,111 in the name of  
EXPOTECH LIMITED

-and-

In the Matter of Applications under sections 13 and 37  
in respect thereof

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(Transcript of the Shorthand Notes of Marten Walsh Cherer Ltd.,  
Midway House, 27/29 Cursitor Street, London EC4A 1LT.)  
Telephone No: 020 7405 5010. Fax No: 020 7405 5026.)

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MR. MICHAEL HICKS (instructed by Messrs Jensen & Son) appeared as  
Counsel on behalf of the Expotech Limited.

DR. PETER COLLEY (instructed by Messrs Dummett Copp) appeared as  
counsel on behalf of BSP International Foundations Ltd.

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D E C I S I O N

As Approved by the Hearing Officer.

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1 THE HEARING OFFICER: The hearing today is a follow-up to the  
2 decision I issued on 1 April in which I made findings on  
3 where certain elements disclosed in the patent had come from.  
4 The decision I am about to give now is concerned with how to  
5 give effect to those findings.

6 The findings I made in my previous decision were that  
7 the patent involves two inventive concepts: one of them is  
8 the idea of using a fixed bottom gripper and two side  
9 grippers. I found this had been invented by Mr. Hart on the  
10 Expotech side and that this invention belonged to Expotech.  
11 It is essentially what is in claim 1 of the patent.

12 I found that the second idea, using direct acting  
13 hydraulic cylinders, came from Mr. Elliott and that this concept  
14 in principle belonged to BSP. Although there was a little  
15 quibbling about the extent of the second idea in one of today's  
16 skeleton arguments, I think it has been accepted this morning  
17 that this idea is essentially claims 2 to 6. Further  
18 as claim 7 involves absolutely everything that is shown, it must  
19 necessarily involve claim 7 too. I also found that the  
20 inventors were Mr. Hart and Mr. Elliott and not Mr. McHattie.

22 I gave the parties an opportunity to try and agree  
23 a solution to the situation we then found ourselves in, but  
24 they could not do so. Expotech came up with the proposal that  
25 they

1           should have sole ownership of the patent; that BSP should  
2           have a free non-transferable licence for the claims to direct  
3           acting hydraulic cylinders (that is claims 2 to 6/2 to 7),  
4           but they would have to take a licence under claim 1 which  
5           would have to be negotiated with Expotech. They also felt  
6           that BSP should pay half the patent prosecution and patent  
7           maintenance costs.

8                        BSP on the other hand wanted to go for joint ownership  
9           of the patent and, indeed, offered a draft order that would  
10          achieve this. They proposed to relying on the co-ownership  
11          provisions of section 36 to settle what each side could do, and  
12          agreed this morning they would pay half the maintenance costs.  
13          That is the background to today's hearing.

14                       I will say a brief word about the law. I need to say  
15          very little because I think both sides agreed this morning  
16          that under section 37(1) I have a wider discretion to do what  
17          best gives effect to my findings. Both sides were also  
18          agreed that if I were to order joint ownership I would still  
19          have flexibility to impose conditions and constraints  
20          notwithstanding what is in section 36.

21                       We looked at a number of precedents. It might be  
22          helpful if I run through them very quickly to provide a backdrop  
23          to what I will say later. One of them was *Henry Brothers*  
24          (*Magherafelt*) *Ltd v the Ministry of Defence* [1997] RPC 693 and  
25          on appeal [1999] RPC 442. In that case the inventive idea lay  
26

1 in combining a number of elements, not in any of the individual  
2 elements. Mr. Justice Jacob (as he then was) said that the  
3 inventor must be the person who thought of the combination, not  
4 the persons who put in the different bits. I do not see that as  
5 relevant to the present case as it is not a combination like  
6 this.

7 In *Andrew Webb v Sandra McGriskin* (three decisions:  
8 O/410/00 6 November 2000, O/135/00 13 April 2000 and O/036/00 3  
9 February 2000) the situation was somewhat similar to the present  
10 one in that one party invented claim 1 and the other party was  
11 held to have invented features of the subordinate claims. The  
12 hearing officer ordered joint ownership with a right to  
13 sub-license, though later that was varied because one side did  
14 not actually comply with the original order.

15 *Goddin and Rennie's Application* [1996] RPC 141 was again  
16 a situation somewhat similar to the present case. The Court  
17 of Session found the respondent was entitled to an elliptical  
18 frame feature of two subordinate claims. It ordered that the  
19 appellant should own the patent and be responsible for its  
20 maintenance, but granted the respondent an exclusive licence for  
21 the two subordinate claims, subject to a royalty.

22 *Markem Corporation v Zipher Ltd* (No 1) [2004] RPC 10, (No 2)  
24 [2004] RPC 11 and the unpublished Order of 20 May 2004 is a  
25 complex case where we do not have the full facts because we do  
26 not have transcripts of all the judge's rulings. Several  
27 patents and patent applications are involved, but it is somewhat  
28 similar to the present case in that there were main claims to

1           which one party was entitled and subordinate claims to which  
2           another party was entitled. The issues there have not been  
3           fully resolved yet, but it is interesting to see that His Honour  
4           Judge Fysh (sitting as a judge of the High Court) has ordered  
5           non-exclusive royalty bearing cross licences in respect of some  
6           of the anticipated patents that are going to be split out.

7                     In *Evode Ltd and others v Minnesota Mining & Manufacturing*  
8           *Company* (decisions O/452/00 4 December 2000 & O/237/00 10 July  
9           2000) - "3M" - the hearing officer found that, while 3M had the  
10          idea in claim 1, they did not really have a workable invention  
11          until the other party came up with the specific material that  
12          made it workable. In other words, it was an invention where you  
13          needed a combination of idea and a method of realisation to  
14          to achieve anything.

15                    I think counsel more or less agreed this morning that  
16          *Viziball Ltd's Application* [1988] RPC 213 was not terribly  
17          relevant, if only because in that case there was joint  
18          inventorship of almost all of the claims, and there was only one  
19          of the claims whose inventorship could be attributed to just one  
20          party.

21                    Finally, although *Collag Corporation v. Merck & Co Inc.*  
22          [2003] FSR 16 was mentioned in the skeleton arguments, counsel  
23          did not say much about it this morning. In this case one side  
24          had contributed the idea of using granules and the other  
25          contributed the idea of using lactose filler in those granules  
26          several months later. It is a messy case because the claims

1           were all over the place, although it was agreed that the core  
2           invention was the granules with the lactose filler.  
3           Mr. Justice Pumfrey held the lactose filled granules  
4           involved a contribution from both parties as the one side would  
5           never have arrived at the lactose filler without the concept of  
6           granules in the first place.

7                     I have summarised the case law because it will form a  
8           background to what I am about to say. What is noticeable  
9           is that the approaches and solutions are quite varied and  
10          reflect the individual circumstances of each case. This  
11          highlights the fact that there is a considerable degree of  
12          flexibility in sorting out such issues.

13                    I now turn to the question of what factors I ought to  
14          be taking into account when deciding what to do in the present  
15          case. It seems to me the overriding factor is: what is going  
16          to give the fairest balance in all the circumstances? As a part  
17          of that I think I should take account of the relative  
18          contributions of the two sides. I should also take account  
19          of the relative abilities of the parties to exploit. That is  
20          a relevant factor because Expotech argue that in practice they  
21          can only exploit by licensing. Dr. Colley has suggested this  
22          should not be a factor because they can change their business  
23          structure, but I do not agree that it can be dismissed so easily  
24          because it is unrealistic to suppose that a business can

1 create the necessary manufacturing ability just like that. One  
2 further consideration is the need to minimise future problems  
3 given the poor relations between the parties.

4 With that I will turn to the question of assessing the  
5 relative contribution of the two parties. The first thing  
6 I will say is that, for the purposes of these proceedings, I do  
7 not consider myself to be in the business of assessing the level  
8 of inventiveness. One of the skeleton arguments  
9 appeared to suggest that might be a factor, but Judge Fysh in  
10 *Markem* made it quite clear that is not. Thus I am not going  
11 to make any judgment as to whether claim 1 or claim 2 is the  
12 more inventive.

13 Expotech have argued their contribution is the greater  
14 because they not only contributed claim 1, but they were  
15 co-contributors to claims 2 to 7 in the sense that their  
16 inventor (Mr Hart) was a causal link in the inventions of those  
17 claims. In other words, BSP would not have had the idea of  
18 using hydraulic rams if Mr Hart had not come up with the idea of  
19 using the fixed bottom jaw in the first place. As Mr. Hicks put  
20 it, if Expotech had not applied for a patent themselves, BSP  
21 could not have applied for a patent for claim 2 on their own  
22 because it would have involved a contribution from Expotech.  
23 This sort of argument is akin to the position in *Collag*, which I  
24 discussed earlier.

25 BSP on the other hand assert that they not only invented



1           claims 2-7 but contributed to claim 1 because the idea of claim  
2           1 on its own was not enough without the means of realisation.  
3           If it was, they argue, why did not Expotech apply for a patent  
4           for claim 1 much earlier, when it had first come up with the  
5           idea? This is, of course, akin to the position in 3M. They  
6           also point out that claim 2 is worded as it is - incorporating  
7           the invention of claim 1- because Expotech wrote it, not BSP.

8                     In my view both of those arguments have some force, but  
9           they pull in different directions. To resolve this, I need to  
10          stand back and taking a broader view, looking at the driving  
11          force behind the inventions - the causation of the inventions,  
12          if you like. In my view there can be little doubt that the  
13          driving force behind both inventions was solving the  
14          reliability problems with the Movax machine. Further, the  
15          evidence taken as a whole suggests to me that the parties'  
16          contributions on that were fairly balanced. Both these  
17          features were important in coming up with a robust machine.  
18          On that basis, I have come to the conclusion that the parties  
19          should get roughly equal treatment, and the order I make  
20          needs to reflect that.

21                     Against, that background I have to say that neither of  
22          the parties' proposals are satisfactory. BSP's proposal will  
23          effectively give Expotech nothing (unless they can work the  
24          invention without licensing) because they would only be able  
25          to license if BSP gave them permission to do so, and given the

1 poor relationships between them, that is unlikely to happen.

2 Expotech's proposal on the other hand would give BSP  
3 nothing in practice, because it would be dependent on  
4 negotiating a licence between parties who are barely speaking to  
5 one another. Again, it is unrealistic to suppose that would  
6 ever happen. Thus I do not regard either of these proposals as  
7 satisfactory.

8 We did this morning talk about what should have  
9 happened in an ideal world. Expotech would have applied for  
10 a patent for the side and bottom grippers and then BSP would  
11 have applied for a patent for the use of rams as an improvement.  
12 Thus they would have had separate patents; one for claim 1 and  
13 one for claim 2. As we discussed this morning, section 48(a)  
14 of the Act would then have kicked in to force cross-licensing  
15 between the parties if they could not agree a licence between  
16 themselves.

17 It strikes me that this is a pointer to the solution in  
18 the present case, because it gets a fair balance between the  
19 parties, given their contributions, and as long as the cross  
20 licences are royalty-bearing, it also accommodates the  
21 inequality in the parties' abilities to exploit. It was also,  
22 I note, a solution adopted in *Markem*, though I treat that with  
23 some care because we do not have the full background.

24 Accordingly I am going to try to achieve the same result,  
25 but given the very poor relations between the parties, I am

1 going to try to do so in a way that minimises future disputes  
2 and minimises the need for further negotiations between the  
3 parties. Given the overriding objective of the Civil  
4 Procedure Rules, I am also going to try to do so in a way  
5 that minimises potential future legal costs.

6 So how do I do that? Let us start with the question of  
7 ownership of the patent. I could achieve the required end  
8 result by putting ownership either in one name or in both names,  
9 so long as I tie it up with enough other conditions. Given the  
10 lack of trust between the parties, I have decided that I  
11 will go for joint ownership because it will give a better  
12 balance between the parties in the event of problems such as a  
13 validity challenge from a third party. However, I will impose  
14 extra conditions to try to minimise the problems that  
15 co-ownership otherwise causes.

16 Next, I am going to impose a cross-licensing  
17 arrangement because I think this will be a good way of  
18 getting a fair balance between the two sides. Each side  
19 will have to pay royalties to the other on anything they sell.

20 There is a question as to whether the royalty rates  
21 should be equal in both directions. Following my finding  
22 that the parties' contributions are fairly balanced, I am

1 going to make the royalty rates equal. I will come back later  
2 to the question of how we resolve the royalty rate.

3 So much for the general nature of the order I would like  
4 to make. What I now propose to do is to go through in a little  
5 more detail, indicating the tenor of the provisions that I think  
6 need to appear in the order. I will include one or two routine  
7 provisions on which neither side has actually made submissions  
8 yet, but which I foresee as being necessary to reduce the risk  
9 of disputes later. I will then ask you, on a timetable to  
10 be agreed, to go away and actually draft something between  
11 you that gives effect to that. I will say now that if in  
12 drafting it becomes apparent that what I have indicated has  
13 some gaps or some bugs - in other words it could have some  
14 unintended or unfair consequences that I have not thought of -  
15 I will be happy to receive submissions on that. That is not  
16 an open invitation to revisit everything, but it is highly  
17 possible there will be scenarios that I have not thought of  
18 that it would be wise to protect against. I am not  
19 ruling out submissions, hopefully jointly agreed submissions,  
20 in that situation. If you really cannot agree a text, then  
21 you will have to put up with what I draft.

22 DR. COLLEY: Could I just interject for a moment. I have had  
23 this difficulty, not in the context of licensing, but in  
24 relation to directions in procedural matters in the High

1 Court, and one resolution is to tender an order which says  
2 effectively tick box A or box B for this provision. It is a  
3 way of saving you the submissions. The other side think it  
4 should be one form of words, I think it is another and you  
5 select the one which you think does the best justice to the job.  
6 That may actually take a step out of the cycle, if that is  
7 helpful.

8 THE HEARING OFFICER: That is fine. What I would hope would  
9 happen is there will not be too many. I do not want every  
10 single clause having two alternatives. There may well be  
11 some details on which you have different forms of wording.  
12 If there are, yes, I am quite happy to take it that way.

13 Returning to my decision. What does this order need to  
14 contain? Let us deal with declarations first. I have heard  
15 the submissions on whether there should or should not be  
16 elaborate declarations this morning. I am not going to make  
17 any declarations on ownership of copyright or design rights,  
18 nor any declarations on delivering up, because I do not consider  
19 I have the jurisdiction to do so.

20 If there are declarations, and I am happy to include  
21 declarations, they should be limited to giving effect to my  
22 findings. In other words, they should be the sort of orders  
23 I would have made anyway to give effect to those findings. That  
24 includes an order that the register be altered to show BSP as  
25 co-proprietor, an order that the register be altered to show

1 Mr. Hart and Mr. Elliott as co-inventors and to delete  
2 Mr. McHattie as an inventor, and an order under Rule 14(5) that  
3 an addendum slip be prepared to show the change of inventor.  
4 Those are the sort of orders I would normally make.  
5 Whether they are presented as declarations or not, I  
6 am not terribly fussed. Any declarations beyond that, I  
7 would like time to look at, so if there is disagreement  
8 between you on that I will deal with that when I come to make  
9 the final order.

10 The order should make clear that both sides have a  
11 right to work all the claims, including claim 7. I am  
12 putting that in partly in order to make clear that  
13 assertions of copyright or design rights should not be  
14 allowed to undermine what the order is trying to achieve. I  
15 hope that deals with that point adequately.

16 The order will require BSP to pay Expotech a royalty of  
17 X (whatever we decide X might be) for every machine it sells  
18 and Expotech to pay BSP a royalty of the same amount for  
19 every machine it "sells". I have put the word "sells" in  
20 inverted commas because, of course, that needs to be  
21 expanded, as in all licences, to sell, dispose of, and all  
22 the other standard terms.

23 DR. COLLEY: Can I just ask you to clarify, sir, that is in  
24 relation to the UK only?

25 THE HEARING OFFICER: The patent only covers the UK.

1 DR. COLLEY: No, if you say "every machine it sells" that would  
2 necessarily include machines which are not sold in the UK,  
3 for example.

4 THE HEARING OFFICER: Which are made outside the UK and sold  
5 outside the UK? The order clearly cannot extend to that. If  
6 they are made in the UK and then exported, clearly it must  
7 cover it. As I am only indicating the general tenor of the  
8 order, I am conscious of the fact that these words need  
9 fleshing out, but this is fairly standard licensing  
10 terminology and I do not anticipate any problems with that.

11 Both sides will have the right, without permission, to  
12 license third parties, but subject to prior notification to  
13 the other side. In the event of such licensing, obviously  
14 the royalty provisions and the accounting provisions, which I  
15 will come to later, must be carried forward so that they bite  
16 on the licensee as well as on the party.

17 I have put this in to ensure that there is a fair  
18 balance to both sides, in particular to Expotech. I do not  
19 think that either side is unduly harmed because they both  
20 end up getting royalty whatever happens.

21 There is also the question of whether the parties should  
22 be allowed to assign their rights in the invention. They should  
23 be allowed to do so, without the other side's permission, as  
24 part of an assignment of the whole or a substantial part of  
25 their total business. Otherwise, they can only do so with the  
26 agreement of the other side.

1           There will need to be the usual accounting provisions.  
2           I am not quite sure how many of these machines are being sold,  
3           but I would suggest that statements should probably  
4           be exchanged quarterly and then the net amount due paid within  
5           a certain time, perhaps six weeks. Obviously if both sides  
6           have sold the same number of machines, there will be nothing  
7           due. There will need to be the usual provisions for  
8           record-keeping and for an independent audit with  
9           confidentiality of each side's customers preserved -  
10          all the usual provisions there - and the usual provisions  
11          for interest on late payments.

12           Patent maintenance costs should be shared, but I am aware  
13          of the problems that arose in *McGriskin*, partly because one side  
14          did not pay up, and partly because the Patent Office's  
15          accounting systems have difficulty in coping with one fee being  
16          paid in two halves Accordingly I am going to say that Expotech  
17          is to be responsible for paying the renewal fees to the  
18          Patent Office. They must pay before the due date and they  
19          must copy Patent Office receipts promptly to BSP. For their  
20          part, BSP must pay their 50% share of the patent renewal  
21          fees to Expotech before the due date.

22           The cost of patent enforcement, by which I mean the costs  
23          of fighting any infringer or dealing with any challenge to  
24          validity, should be shared, though the right of either side to  
25          apply, which I will come to later, may become relevant if there



1 is a challenge that does not affect all the claims.

2 Surrender must also be considered, because we could  
3 reach the position where one party loses interest in the  
4 patent but the other does not. I propose that either  
5 side may surrender its rights in the patent to the other, in  
6 which case they cease to be responsible for any future costs,  
7 but equally cease to be entitled to any royalties. I think  
8 they should probably retain a personal right to work the  
9 inventions on payment of royalties to the other.

10 The right to receive royalty will terminate on the  
11 cessation of the patent, whether that is by mutual agreement  
12 or otherwise, and on material breach provided a reasonable  
13 opportunity to rectify has been given. Again, those are  
14 fairly standard terms in licences.

15 Either side should have the right to apply to the  
16 Comptroller for a variation of the order if there is a material  
17 change of circumstance which might reasonably be considered to  
18 call for a variation and the parties are unable to reach  
19 agreement themselves. For the avoidance of doubt,  
20 "a material change of circumstance" includes the possibility  
21 that one or more claims might later be found to be, or  
22 conceded to be, invalid. I put that in because I am  
23 conscious that there have been odd murmurings about validity

1           during the course of these proceedings.

2                     If the parties want to put in a clause on dispute  
3 resolution, that is fine as long as it is not inconsistent  
4 with any of the other clauses.

5                     The final point will be dealing with costs, including  
6 patent prosecution costs. I am deferring that for the moment  
7 because I want to think about the submissions I have received,  
8 but I will be including something in the final order.

10                    That is an outline of what I think needs to appear in  
11 the order. I hope it wraps up most points bar one, and that  
12 one is the difficult one, the royalty level. If I could have  
13 arrived at a fair solution that did not involve us setting a  
14 royalty I would have done so, but I came to the conclusion  
15 that it just was not possible. A cross-royalty is  
16 necessary to be fair to both sides. I am not going to make a  
17 ruling on that now. I will stop there with my decision so that  
18 we can discuss mechanisms for arriving at a royalty rate. A  
19 tiny bit of optimism in me says that since the royalties are  
20 balanced each way, the parties might be able to agree because  
21 they both stand to lose if they are stupid on royalty levels,  
22 but that may be unduly optimistic.

Counsel then made further submissions and suggestions (see separate transcript of the proceedings), during which the Hearing Officer made the following clarifications and additional rulings:

1. The cross royalty provisions should apply even if one party made machines that fell within claim 1 but outside claims 2 to 7.
2. The parties should consider whether it might be preferable to have a royalty of £X per machine, with inflation proofing, rather than a percentage royalty.
3. Subject to any further submissions the parties might want to make after further reflection, the licences should date back to the date of publication of the application. That means there would also need to be appropriate provisions for dealing with back royalties.
4. If sub-assemblies or spare parts were likely to be sold, the licence would need to deal with that as well.
5. Given the overriding objective now enshrined in the Civil Procedure Rules to deal with the case in ways which are proportionate, it would be undesirable to settle the royalty rate by full-blown licence settlement proceedings, as these could take years and involve large quantities of evidence. In the present situation, it was appropriate to order a "quick and dirty" approach. Accordingly:
  - a) By 30 June the parties should see whether they could agree a royalty, and if not, whether they could at least agree a simple mechanism for settling the royalty. [Subsequently, on 1 July, the Hearing Officer extended this deadline to 14 July.]
  - b) If they could agree neither a royalty nor a mechanism, then the following default mechanism would come into play: both sides should make a short written submission - not expected to exceed 20 pages, apart from any attachment such as a licence - by 31 July; the Hearing Officer would then consider the submissions, with no further hearing, and make a ruling on what the royalty rate should be. [Subsequently, on 1 July, this deadline was extended to 16 August.]
6. By 31 July [now extended to 16 August] the parties should supply to the Hearing Officer an agreed a text for the licence (with a blank for the royalty rate to be inserted) embodying the provisions he had specified. Insofar as they could not agree on the wording of any clauses, they should supply their respective suggestions and the Hearing Officer would then decide between them.

APPROVED