



BL O/150/04

1<sup>st</sup> June 2004

**COPYRIGHT, DESIGNS AND  
PATENTS ACT 1988**

BETWEEN

Traypoint Limited Applicant

and

ASD Lighting Plc Licensor

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PROCEEDINGS

Application under section 247 to settle the terms of a licence of right available under section 237 in respect of certain design rights

HEARING OFFICER

P Hayward

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**DECISION**

- 1 This application to settle the terms of a licence of right for certain design rights has been made by Traypoint Limited (“Traypoint”), who are represented by their patent agents Fry, Heath & Spence. The design right owner is ASD Lighting Plc (“ASD”), represented by their solicitors Hammonds. The design rights relate to passive infrared (“PIR”) sensor units used to control lighting appliances such as halogen floodlights. The design rights do not extend to the lighting appliances, though in practice both companies sell sensors with a floodlight as a combined unit. To allow for this, they have agreed to work on the basis that the sensor accounts for two thirds of the cost of the combined unit.
- 2 The licence application has three unusual features. First, the parties have agreed the terms of the licence, including most importantly the royalty, save for costs. Second, the parties have asked for the licence to extend back before the date of the application to the comptroller. Third, as the design rights expired on 31 December 2003, before these proceedings had been concluded, the licence is to be wholly retrospective.
- 3 Given the limited area still in dispute, the parties have sensibly agreed that I should reach my decision on the basis of their written submissions, without having an oral hearing, and that is

what I will now do. I will look first at the terms of the licence, and then turn to the issue of costs. Before doing either, though, I will very briefly set out the relevant law.

### **The law**

- 4 The application arises from the provisions of section 237 of the Copyright, Designs and Patents Act 1988, under which:

“(1) Any person is entitled as of right to a licence to do in the last five years of the design right term anything which would otherwise infringe design right.

(2) The terms of the licence shall, in default of agreement, be settled by the comptroller.”

- 5 The specific provisions for such applications are in section 247, the relevant parts of which read:

“(1) A person requiring a licence which is available as of right by virtue of section 237 . . . may apply to the comptroller to settle the terms of the licence.

(6) Where the terms of a licence are settled by the comptroller, the licence has effect . . . from the date on which the application to the comptroller was made.”

### **The licence terms**

- 6 As I have said, the parties have now agreed the licence terms, so it might seem there is little I need to say about them. However, I have found it necessary to make a number of editorial changes. Most importantly, the agreed draft I have been given is presented as though it were an agreement the parties were going to sign. It is not. It is a licence I am going to impose, so it will not be signed by the parties. That requires a number of changes to the text and layout. It also requires the removal of references to warranties and undertakings, as they are meaningless in a document that is not signed by those purportedly giving the warranties and undertakings.
- 7 I have also made a couple of other minor changes. I have deleted an optimistic paragraph which foreshadowed the possibility that the United Kingdom might join the common European currency during the subsistence of the licence. I have also deleted a paragraph requiring Traypoint not to make certain representations as it is inappropriate in a licence for a right that has already expired. Finally, as I do not have spare copies of the drawings of ASD's PIR unit which were to be attached as a schedule to the licence, I have replaced the schedule by a reference to the drawings filed with the present application, as that should be sufficient to identify them unambiguously
- 8 There remains the question of the date from which royalties under the licence will apply. Strictly, under section 247(6) I only have the *vires* to settle a licence commencing on the date on which the application to the comptroller was made, which I take to be 21 March 2003. However, both sides have agreed that the terms to be applied for sales from that date

should also apply to sales before that date, and would like the licence that I settle to embrace those earlier sales. Accordingly, because the parties have requested this, I am extending the licence back to the date of the first relevant sale, which both sides now agree is 22 January 2001.

9 I therefore order that the licence be on the terms appended to this decision.

### **Costs**

10 I will now turn to the question of costs. Before I can consider the issue in detail, I need to summarize the history of events as revealed by the evidence filed by both sides. I do not intend to give a full, blow-by-blow account of everything that happened, but just sufficient to give the general flavour.

11 Traypoint were first alerted to the fact that they were selling a product in which ASD claimed it had design rights in May/June 2001. ASD indicated that they were prepared to offer a licence, and Traypoint said they were prepared to take one. By October 2001 the parties had settled on a royalty rate of 5% and seemingly come close to agreement on all the terms. However, they had not agreed who should foot the bill for ASD's legal costs. In addition, the near-agreement was slightly illusory, because the draft licence failed to take account of the fact that the infringing articles (ie the PIR units) were not actually sold on their own but only in conjunction with a floodlight in whose design ASD did not have rights. This meant there was ambiguity as to the price on which the 5% royalty calculation was to be based.

12 Having got so close I regret to say the parties then moved apart into more antagonistic positions. That is a pity, because given the constructive approach the two sides had adopted up till then, I can't help feeling that a face-to-face discussion between responsible managers in the two companies should have been able to thrash out a compromise solution to these two points in ten minutes. That would not only have avoided the need for the present application but would also have avoided 2½ years of correspondence between their legal representatives.

13 As it was, Traypoint responded to ASD's reminder that they wanted their legal costs paid by requesting a licence for some other products too. The matter stagnated for a few months and then, in March 2002 after they had changed solicitors, ASD said they would not widen the licence and reminded Traypoint that their request for full details of Traypoint's infringing activities was still outstanding. In May, in the absence of a response, ASD sent Traypoint a revised licence, which amongst other things addressed the ambiguity over the royalty calculation by clearly stating that the 5% royalty was to be levied on the combined PIR plus floodlight. Traypoint's agents queried this but said they would put it to their clients.

14 Seven months elapsed with no reply from Traypoint. Eventually, in December 2002, ASD started putting pressure on Traypoint to conclude the matter. After a number of exchanges of correspondence, in March 2003 Traypoint told ASD that they had made the present application to the comptroller, citing as the main reason the fact that ASD were requiring the royalty to be levied on the floodlight as well as the PIR unit. However, the licence that

Traypoint submitted with their application was simply the ambiguous draft of October 2001. They made no attempt to address the ambiguity even though the problems with the ambiguity were the main reason for the application.

- 15 ADD objected to the licence terms, and in June Traypoint filed a counterstatement. For the first time, they suggested that the relative costs of the PIR unit and floodlight could easily be apportioned to provide a basis for the royalty calculation. At the beginning of August ASD asked Traypoint to come up with a specific proposal for apportionment, and in October they eventually did. ASD accepted this, so all that remained were some objections by Traypoint to certain terms that ASD wanted in the licence and the question of costs. In February ASD came up with a redrafted, simplified licence, taking account of what the parties had now agreed and also reflecting the fact that the licence would now be wholly retrospective. That is the point at which the matter came to me for decision.
- 16 When I studied the papers, however, I could not work out what issues (other than costs) were still in dispute. The only draft licence Traypoint had offered was the October 2001 version, and that was manifestly inappropriate in the light of all that had transpired since. Moreover, many of the objections they had raised simply did not apply to the redrafted licence offered by ASD. Accordingly, I asked Traypoint to say what clauses in ASD's latest draft they still found objectionable. Their answer was none.
- 17 So much for the history. I must now consider what to do about costs. In licence of right proceedings before the comptroller, the presumption has been that each side should normally bear its own costs. This is because there is no winner and no loser. The licensor is obliged to grant a licence and the licensee is entitled to have one, and the comptroller is simply settling the terms. However, that presumption can be displaced in exceptional circumstances, in particular, if one side has behaved unreasonably. In the present case, each side says the other has behaved unreasonably. ASD say Traypoint have deliberately delayed agreement, and as a result ASD have still not received any royalties. Traypoint say the blame all lies with ASD for renegeing on the October 2001 agreement and insisting on royalties that covered the floodlight.
- 18 Strictly speaking, all I am considering is the request to settle the terms of a licence of right that was filed in March 2003. That raises two questions when considering costs. First, can I take account of the behaviour of the parties before the application has filed? Both parties have argued on the assumption that I can. I believe that must be right, because in assessing the conduct of the parties, their behaviour in the lead-up to the formal litigation can be just as important as their behaviour after the litigation had been formally launched. Indeed, so far as costs in the courts are concerned, I note that rule 44.3(5) of the Civil Procedure Rules expressly states that pre-litigation conduct should be taken into account.
- 19 The second question is whether I should take any account of the fact that until the present application was filed, the dispute between the parties was arguably a dispute about damages for infringement rather than a dispute about the terms of a licence of right. This is relevant because, with the agreement of the parties, the licence I have ordered goes back into the period before the present application was filed, into what I might call the "infringement

period”, and of course in infringement litigation there is a winner and a loser – an infringer would normally expect to pay costs. Nevertheless, I am not actually settling an infringement dispute, and have no jurisdiction to do so. Neither side has specifically addressed me on this question, but I have come to the conclusion that it would be wrong for me to take the infringement angle into account because I have no infringement jurisdiction. Indeed, I note that ASD only seek a costs award “in respect of the legal costs settling the terms of the licence of right”, and I suspect that is a tacit recognition that I cannot treat this as an infringement action when considering costs. Thus I must look at the history of events as though it were solely about settling the terms of a licence of right.

- 20 So, has either side behaved sufficiently unreasonably to justify displacing the presumption that each side bears its own costs? In the initial period, up to October 2001, the evidence suggests both parties were behaving very reasonably, and indeed making good progress in reaching a settlement. Traypoint argue that agreement was in fact reached in October 2001, and moreover that what the parties agreed then was similar in all commercial respects to the terms they have agreed now. They say that the failure to conclude the whole matter in October 2001 is all down to ASD. That argument is disingenuous. An agreement isn’t an agreement until all the terms have been agreed, and in October 2001 the parties were still far apart on one issue – costs. Moreover, this issue was not, as Traypoint have tried to imply, something thrown in by ASD at the last minute. It was an issue that ASD had raised right at the outset and repeated part way through the negotiations, but to which Traypoint had apparently not responded until October.
- 21 As I have said, Traypoint then offered to pay ASD’s costs if the licence were extended to other products too. They cannot be condemned for that as it was a perfectly reasonable possibility to explore, and indeed I note that ASD did not reject out-of-hand but seemed prepared to consider it. There was then a three month delay, from December 2001 to March 2002, before ASD confirmed that they were not prepared to extend the licence. I suspect the delay was a result of ASD’s change of solicitors, but the tone of the response when it came was, I must say, a little heavy handed given that the ball had been in ASD’s court for three months. However, Traypoint cite this delay as one of the reasons for ASD to pay their costs rather than *vice versa*. That submission is, quite frankly, impudent, because Traypoint themselves did nothing for seven months a little later that year, when the ball was in their court. Whilst the three month delay was regrettable and, given the delay, so was the slightly heavy response, I do not feel they can be regarded as sufficiently unreasonable behaviour to influence the question of costs.
- 22 After further correspondence, ASD put forward a revised draft licence in May 2002. This licence introduced a number of new detailed provisions. This may have happened because a new solicitor had looked at the licence and felt there were a number of details that weren’t properly covered in the original draft, but whatever the reason, ASD must bear some criticism for not having raised these points in the previous year. However, the most important point about the new draft was that it recognized the ambiguity over how royalty was to be assessed and proposed resolving it by levying the royalty on the PIR and lamp combined. Traypoint present this as an unreasonable change in ASD’s position, because they were now

demanding that royalty be paid on something (the lamp) that was not subject to design right. I disagree. I cannot determine from the evidence available to me whether neither side had thought about the problem of calculating royalty given that PIRs were not sold on their own, or whether the two sides were simply putting different interpretations on the original draft, but either way, now ASD had recognized the ambiguity it was quite proper for them to propose a solution. Moreover, I do not consider the proposal was an unreasonable one, because at that stage ASD were not really in a position to suggest anything else as it was only Traypoint, not ASD, who were in a position to know the relative costs of their PIRs and lamps.

- 23 Traypoint could easily have responded then with their counter proposal, suggesting how the costs of the PIR and lamp could be apportioned so as to provide an alternative basis for calculating royalty. Instead, they did nothing for seven months, and when ASD eventually started chasing them, after a few exchanges of correspondence they simply filed their present reference. It was not until June 2003 that they suggested their counter proposal, and even then they failed to be specific about the apportionment. ASD, to their credit, responded positively to the counter proposal, and I have no reason to believe they would not have responded equally positively had Traypoint put this to them in May 2002. Had they done so, I am quite sure the licence would have been sorted out then and these proceedings would have been unnecessary. Traypoint's failure to do so, and their subsequent resort to litigation when the scope for resolving the issues by negotiation was far from exhausted, were in my view unreasonable. Moreover, this culpability was much more significant and weightier than ASD's culpability in raising new points of detail in May 2002, as I do not believe the latter on their own would have derailed the negotiations.
- 24 I also note that even after the counter proposal had been fleshed out and agreed, Traypoint's behaviour continued to leave much to be desired. This is highlighted by their failure to make any attempt to narrow down the issues in dispute, culminating in my having to write to them only to discover they didn't now think there was anything in dispute other than costs. This contrasts markedly with ASD's much more constructive approach in redrafting the licence to take account of the changing circumstances.
- 25 I am therefore satisfied that this is a case in which it would be proper for me to make an award of costs. They should reflect the impact that Traypoint's unreasonableness has had on ASD. The main impact has been the need for ASD to defend proceedings that should never have been necessary, and so I propose to award ASD their costs in the present proceedings. That leaves one question. Should I calculate the costs on the comptroller's normal scale, or should I go for something closer to an indemnity basis?
- 26 Taking all the circumstances into account, whilst I have criticized Traypoint's behaviour, I do not consider their unreasonableness was so gross as to justify indemnity costs, although I do think it justifies a modest uplift on the scale. Accordingly, I order Traypoint to pay ASD £2000 as a contribution towards their costs. This should be paid at the same time as the royalty is due under the licence, ie within 30 days of this decision.

## **Appeal**

27 Under section 249 of the Act, any appeal lies to the Registered Designs Appeal Tribunal. As this decision is not on a matter of procedure, any appeal must be lodged within six weeks.

**P HAYWARD**

Divisional Director acting for the Comptroller

**ANNEX TO DECISION BL/150/04**

DATED

1<sup>st</sup> June 2004

**ASD LIGHTING PLC** (1)

and

**TRAYPOINT LIMITED** (2)

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**RETROSPECTIVE LICENCE**

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**DATE OF LICENCE**

**1<sup>ST</sup> JUNE 2004**

**PARTIES**

- (1) **ASD LIGHTING PLC** (Company Number 1677887) whose registered office is at Mangham Road, Barbot Hall Industrial Estate, Rotherham, S61 4RJ ("**ASD**")
- (2) **TRAYPOINT LIMITED** (Company Number 2591028) whose registered office is at Tudor House, Llanvanor Road, London, NW2 2AQ ("**Traypoint**")

**The comptroller orders that the licence be on the following terms:**

**1 DEFINITIONS**

1.1 In this licence:

"**Designs**" means the design of ASD's PIR Unit and the design rights therein;

"**Infringing Article**" shall mean any article made to the Designs if its making to the Designs was an infringement of the design rights in the Designs (applying English law);

"**Effective Date**" shall mean the date of first sale by Traypoint of any Royalty Articles being 22 January 2001;

"**Net Price**" means Traypoint's invoiced ex-works sales value after deduction of normal trade discounts actually granted and excluding or making proper deductions for any costs of packing, insurance, carriage and freight and value added or any other tax based directly on sales subject in all cases to the same being separately charged on invoices to customers;

"**PIR Unit**" means ASD's PIR unit which is identified in the copy drawings forming part of exhibit 1 to the statement accompanying Traypoint Limited's application to the comptroller on Design Right Form 3;

"**Royalty Articles**" means any Infringing Articles and/or any product incorporating an Infringing Article including, without limitation, Traypoint's 500W Halogen Floodlight IP 44 TF203; and

"**The Term**" means the period between the Effective Date and the 31<sup>st</sup> day of December 2003.

1.2 When reference is made to a statutory provision this includes all existing and subsequent amendments and modifications and any subordinate legislation made under it from time to time.

1.3 Headings are for ease of reference only and shall not form part of the Licence.

**2 ROYALTY**

2.1 Traypoint shall, within 30 days of the date of this Licence, pay to ASD a royalty of:

- (a) 5% of the Net Price of each Infringing Article sold or otherwise disposed of during the Term of this Licence

- (b) 5% of two thirds of the Net Price of each Royalty Article (excluding Infringing Articles) sold or otherwise disposed of during the Term of this Licence.
- 2.2 On payment of royalties in accordance with 2.1 above, Traypoint shall also supply to ASD a detailed statement of the number of Royalty Articles in respect of which royalties are payable, and the amount of royalty due and owing in respect of the Term. Any royalty statement provided hereunder shall bear the certificate of an officer of Traypoint or its duly appointed delegate, that it is complete, true and correct.
- 2.3 Traypoint shall pay United Kingdom value added tax upon all royalties and other sums due under this Agreement to ASD if the same is properly due and payable.
- 2.4 Interest shall be payable (calculated on a daily basis) on any overdue payment, an overdue payment being a payment due and owing under this Licence but not made in accordance with the time limits set out in the provisions of this Licence, from the date payment is due until the actual date of payment at the rate of three per cent over the base lending rate of Barclays Bank from time to time.
- 2.5 All payments shall be made by credit transfer to ASD's bank account with the Barclays Business Centre, Leeds Branch of Barclays Bank Plc (sort code 20-48-46) to the credit of ASDs account number 50045950 or such other account as ASD may designate by notice from time to time.
- 2.6 Traypoint shall keep full and accurate records in human readable form of all sales and other disposals of Royalty Articles and Infringing Articles and all data necessary for the determination of royalties payable under Clause 2.1 in the United Kingdom for 6 years from the expiry of the Term.
- 2.7 Traypoint shall allow representatives of ASD to inspect:
  - (a) Traypoint's records kept under Clause 2.6; and
  - (b) any invoices, delivery notes, cheques or other vouchers (whether in paper or electronic form) from which such records are compiled

not more than once after expiry of the Term and upon not less than 7 days notice. The purpose of such inspection will be for ASD to verify the correctness of royalty-related information passed to ASD by Traypoint, and no other purpose. ASD will ensure that all information gleaned by its representatives (other than that related to the amount of royalty due, the amount of any underpayment and whether the payments/reports are accurate) during any such inspection shall be treated strictly as confidential by the representative. If the representative determines that Traypoint has underpaid ASD, ASD shall notify Traypoint of such shortfall and Traypoint shall make up such shortfall within 7 days of notification. If the shortfall is 10% or more, the expenses of the representatives of ASD incurred by ASD for the inspection shall be borne by Traypoint.

- 2.8 Traypoint shall not be entitled to set off, withhold or otherwise deduct any sum against the royalties or other amounts payable to ASD under this Licence.

### **3 DEFAULT NOTICE**

- 3.1 Should Traypoint breach any provision of this Licence ASD may serve a notice (to be known as a "default notice") specifying the breach and requiring Traypoint (if the breach is capable of remedy) to remedy the same or compensate ASD within 30 days.

## **4 TERMINATION**

- 4.1 This Licence shall expire, except for the ongoing provisions in Clauses 2.6 and 2.7, when
- (a) ASD receive the payment from Traypoint under Clause 2.1 of this Licence,
  - (b) that payment is accompanied by the statement (certified by an officer of Traypoint) as referred to in Clause 2.2 above, AND
  - (c) ASD write to Traypoint confirming receipt of this payment and that this is acceptable to ASD, such confirmation not being unreasonably withheld.
- 4.2 While this Licence is in effect, ASD may determine this Licence by notice with immediate effect should Traypoint:-
- (a) fail to remedy or compensate a breach within the time specified in a default notice; or
  - (b) be wound up (otherwise than for the purpose of reconstruction or amalgamation), placed into administration, suffer a receiver to be appointed over any assets or otherwise fail to pay its debts as and when they fall due.
- 4.3 On termination of this Licence howsoever arising, all outstanding sums payable by Traypoint to ASD shall become immediately due and repayable..
- 4.4 Termination howsoever arising shall be without prejudice to any rights of either party which may have accrued by at or up to the date of termination.

## **5 NO OTHER RIGHTS**

- 5.1 Except for the retrospective licence granted in Clause 2.1 no rights or licence under any other designs or other intellectual property rights of ASD or any third party is granted to Traypoint either express or implied. Traypoint shall not assign, transfer, charge, encumber or otherwise deal with the whole or any part of this Licence or its rights or obligations under this Licence without the prior written consent of ASD.

## **6 NOTICES**

- 6.1 All notices and notifications shall be in writing and signed by an authorised representative of the party concerned.
- 6.2 Service may be effected by any and all means provided for the service of documents under the Civil Procedure Rules.

## **7 DISPUTES**

- 7.1 All disputes and differences which cannot amicably be settled by the parties shall be referred to arbitration and in default of agreement between the parties as to choice of arbitrator then one shall be appointed by the President of the Law Society of England and Wales upon application by either party.

## **8 CHOICE OF LAW**

- 8.1 This Licence shall be construed in accordance with the laws of England and Wales and the parties hereby submit to the exclusive jurisdiction of the English Courts.

## **9 GENERAL**

- 9.1 Notwithstanding that the whole or any part of any provision of this Licence may prove to be illegal or unenforceable the other provisions of this Licence and the remainder of the provision in question shall remain in full force and effect.
- 9.2 This Licence supersedes all prior agreements, arrangements and understandings between the parties. No addition to or modification of any provision of this Licence shall be binding upon the parties unless made by a written instrument signed by a duly authorised representative of each of the parties. Any addition to or modification of this Licence agreed to by ASD shall be binding on Traypoint.
- 9.3 No forbearance, delay or indulgence by either party in enforcing the provisions of this Licence shall prejudice or restrict the rights of that party nor shall any waiver of its rights operate as a waiver of any subsequent breach and no right, power or remedy herein conferred upon or reserved for either party is exclusive of any other right, power or remedy available to that party and each such right, power or remedy shall be cumulative.
-