

# Bird & Bird & IP & IT Bytes

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## Breach of confidence: damages

### Summary

The High Court has assessed damages in a breach of confidence claim relating to technical information in a database used in the manufacture of mosquito nets.

### Background

In a patent infringement case, the House of Lords identified three ways that damages could be assessed:

- Where the claimant exploits the patent by selling articles or products, damages will generally be based on loss of profits: the profit from sales that were diverted from the claimant to the defendant as a result of the infringement. It must be shown that the sales would not have been made by the defendant but for the infringement.
- Where the claimant exploits the patent by granting licences, the court will usually assess damages based on the royalty that the infringer would have paid if he had obtained a licence, with regard to the amount that the claimant charged for other comparable licences.
- Where it is not possible to show that there is a normal rate of profit or royalty rate, the royalty is usually assessed on the basis of the notional licence fee that would have been payable between a willing licensor and licensee (*General Tire and Rubber Company v Firestone Tyre and Rubber Company Ltd* [1976] RPC 197).

Many customers only buy mosquito nets that have approval from the World Health Organization (WHO).

### Facts

A consultant, S, developed a formula while working for V (the confidential information). S then used the confidential information while working for B. As a result, B was able to manufacture two types of mosquito nets that obtained WHO approval:

- Nets made to a formula based on the confidential information (the first formula nets).
- Nets made to a modified version of that formula, developed by S while working for B (the later formula nets).

V issued proceedings against B for breach of confidence involving the misappropriation of trade secrets.

The court ruled in V's favour on liability. The Court of Appeal and the Supreme Court upheld this decision. The court was then asked to assess damages.

## Decision

Applying *General Tire*, the court awarded damages for lost profit on diverted sales in relation to the first formula nets. It assumed that the other suppliers on the market, including V, would have won B's business in accordance with the shares in which they won other business in the market. So, V's proportion of the market was applied to the total number of B's sales of mosquito nets in order to calculate the number of sales diverted from V. The net profit was then applied to these diverted sales.

The court awarded royalties at a rate of 4% for the remaining first formula nets sold by B as payment for permission to use the confidential information that the consultant had used to arrive at the first formula. This royalty rate reflected the value to both parties of V's contribution to potentially substantial future sales of a competing net, but recognising that the information might not lead to any sales for B. As there was no evidence as to the sales price of the nets, the court used an average notional price calculated by dividing the number of nets sold by the total profit.

The court awarded a lump sum or quasi-consultancy fee for the use of V's confidential information in relation to manufacturing the later formula nets and gaining WHO approval. However, no sum was awarded for accelerated entry into the market: the WHO approval date would have been the same even if S had developed the later formula from scratch without the benefit of the confidential information because the relevant tests would still have had to take place during the mosquito season.

## Comment

This decision is interesting in showing the calculation of damages for the sale of products whose manufacture is only indirectly derived from the misuse of confidential information. The court recognised that it would be unfair to compensate V to the same extent for the later formula nets as for the first formula nets, as this would not reflect the actual loss caused by the different products.

The court's refusal to award a sum for accelerated market entry in this case demonstrates how damages can be limited by the circumstances; for example, here, the timing of the mosquito season.

*Case: Vestergaard Frandsen A/S v Bestnet Europe Ltd and others [2014] EWHC 3159 (Ch).*

## Patents: no illegality defence to cross-undertaking

### Summary

The Supreme Court has held that damages under a cross-undertaking for an interim injunction after the UK patent was later invalidated were not barred by the defence of illegality.

### Background

A cross-undertaking in damages is normally required as a condition for an interim injunction to ensure that the party affected by the injunction is compensated if it later turns out that the injunction was wrongly granted.

No court will lend its aid to a man who founds his cause of action upon an immoral or an illegal act (the illegality defence) (*Holman v Johnson (1775) 1 Cowp 341, 343*).

### Facts

S's patent for the drug Perindopril had expired in the UK in relation to the compound itself, but not in Canada where it remained protected., S had obtained a European patent (designating the UK) in respect of a crystalline form of the drug (the patent).. S brought proceedings against A in the UK for infringing its patent and applied for an interim injunction.

The High Court granted S the interim injunction, subject to a cross-undertaking in damages. It then held at full trial that the patent was infringed but invalid, and the injunction was discharged. S appealed.

The Court of Appeal refused to restore the injunction and dismissed the appeal. The High Court was asked to assess the damages due to A on the cross-undertaking.

S brought separate proceedings against A in Canada for infringing its Canadian patent by manufacturing Perindopril in Canada. The Canadian court held that the patent was valid and infringed, and S was granted a final injunction.

In the UK proceedings, S then raised an illegality defence on the basis that it was against public policy for A to recover damages for being prevented from selling a product whose manufacture in Canada would have been illegal as an infringement of the Canadian patent.

The High Court held that A's claim was barred because it could not claim damages without affirming that it would have manufactured the product in Canada where it was illegal to do so. A appealed.

The Court of Appeal allowed the appeal on the basis that the infringement of a foreign patent was not turpitude for the purpose of the illegality defence ([www.practicallaw.com/4-520-0191](http://www.practicallaw.com/4-520-0191)). It based this decision on five important factors:

- A honestly and reasonably believed the Canadian patent was invalid.
- S should, as a matter of principle, pay A when it was found not to be entitled to a monopoly.
- The sale of the product in the UK did not infringe the Canadian patent.
- The Canadian court had refused to restrain manufacture of the active ingredient or the product in Canada.
- Credit would be given for the damages payable in the Canadian proceedings for infringements committed there.

S appealed.

## Decision

The court dismissed the appeal.

Only one of the factors considered by the Court of Appeal, A's honest belief in the invalidity of the Canadian patent, was an assessment of the moral culpability of A's infringement. The others were subjective fact-based evaluations of the effect of applying them to an individual case. This approach was wrong because the illegality defence was a general rule of law based on public policy, not a discretionary process that depended on balancing the merits between the parties to a particular dispute.

Turpitude meant criminal or quasi-criminal acts because only acts in these categories engage the public interest that underlies the illegality defence. Patent infringement was a tort or civil wrong, which offended private interests rather than the public interest. So, here the illegality defence did not apply. Although a patent is a public grant of the state, it did not follow that the public interest is engaged by infringement of a patentee's rights. The only relevant interest affected was that of S and that was sufficiently vindicated by the availability of damages for the infringement in Canada that would be deducted from any recovery under S's undertaking in the UK. There was no public policy that could justify the forfeiture of A's right to be compensated in addition.

## Comment

The court observed that cross-undertakings are a standard and valuable feature of commercial litigation and there is a public interest in their enforceability in bona fide disputes. The illegality defence could not have been raised if manufacture had taken place in a country where there was no patent.

The court noted that there might, at some later stage, need to be a detailed re-analysis of conflicting case law in the light of the Law Commission's 2009 Consultative Report on the Illegality Defence ([www.practicallaw.com/4-385-4857](http://www.practicallaw.com/4-385-4857)). This had proposed a public conscience test under which the illegality defence would call for a value judgment about the significance of the illegality and the injustice of barring the

claim on account of it. Here, however, the outcome would have been the same, as the Court of Appeal using a more discretionary approach reached the same conclusion as the court.

*Case: Les Laboratoires Servier and another v Apotex Inc and others [2014] UKSC 55.*

## Trade marks: genuine use of wordless logo mark

### Summary

The Court of Appeal allowed an uncontested appeal against the High Court's revocation for non-use of a figurative Community trade mark (CTM) for a wordless logo.

### Background

Registered trade marks may be revoked where there has been no genuine use of the mark for a continuous five-year period, and there are no proper reasons for non-use (*section 46(1)(b), Trade Marks Act 1994 and Article 51(1)(a), CTM Regulation (2007/2009/EC) (Article 51(1)(a))*).

### Facts

S sued A for trade mark infringement following A's use of a logo and straplines in a marketing campaign. S relied on various CTMs including a figurative wordless CTM consisting of two overlapping ellipses (the wordless CTM).

A sought to revoke the wordless CTM for non-use under Article 51(1)(a). In its response to A's revocation claim, S relied on its use of its logo CTM consisting of the word SPECSAVERS against a background of two overlapping ellipses (the logo CTM).

The High Court held that the wordless CTM was not infringed and also revoked it for non-use ([www.practicallaw.com/2-503-1590](http://www.practicallaw.com/2-503-1590)). S appealed.

The Court of Appeal stayed an appeal against the decisions on the wordless CTM pending a reference to the European Court of Justice (ECJ) on whether the use of a CTM only as part of a composite registered mark could amount to genuine use of the CTM ([www.practicallaw.com/7-518-1704](http://www.practicallaw.com/7-518-1704)). The ECJ ruled that it could ([www.practicallaw.com/8-539-0047](http://www.practicallaw.com/8-539-0047)).

S and A settled the dispute between them on confidential terms, but agreed that S could pursue its appeal against the revocation order. As it was now an uncontested appeal, the Registrar of Trade Marks (Registrar) intervened to protect the public interest in invalid trade marks being restored to the register.

### Decision

The court allowed the appeal. It held that S had proved that it had made genuine use of the wordless CTM.

Much of S's use of the logo CTM constituted use of the wordless CTM. The evidence showed that the average consumer had perceived the wordless CTM as indicative of the origin of those goods and services. Much of this use was such that the differences between the logo CTM and the wordless CTM did not change the distinctive character of the wordless CTM. The wordless CTM had itself been seen as a trade mark and not simply as background.

There was unusually powerful evidence of S's use of the logo CTM and of the average consumer's perception, including that:

- S had made substantial use of the wordless CTM over many years.
- None of S's competitors had a logo remotely similar to the logo CTM or the wordless CTM.
- There was a strong inference that A was well aware that the wordless CTM denoted S even with the words "ASDA Optician" written across it: A's internal documents described A's logo as a "rip off", "highly

recognisable” and “the Specsavers logo”. Given A’s understanding of the market and its knowledge of the average consumer, this was persuasive evidence of how the logo CTM was perceived.

- From a distance the word SPECSAVERS did not stand out from the logo CTM; it was the green overlapping ellipses that caught the eye.

The court rejected the Registrar’s submission that, as the High Court had found that the ellipses in the logo CTM and A’s logo did not lead to likelihood of confusion, it followed that the ellipses did not act as an indication of origin.

## Comment

This was an unusual case where the evidence in support of genuine use was particularly strong. The court emphasised that each case must be decided on its own facts in the light of all relevant circumstances, and that, in general, it was unlikely that the background of a mark would be perceived by the average consumer as an indication of origin. This decision should not therefore open the floodgates of applications for commonplace wordless logo marks.

The court’s rejection of the argument that the first dismissal of a likelihood of confusion between the common element of the logo CTM and A’s logo meant that the ellipses did not act as an indication of origin is unsurprising since the tests for likelihood of confusion and establishing genuine use are different.

*Case: Specsavers International Healthcare Ltd and others v Asda Stores Ltd [2014] EWCA Civ 1294.*

## Trade mark infringement: interim damages

### Summary

The High Court has awarded remedies for infringement of the registered trade mark GLEE, including an interim payment of damages.

### Background

The IP Enforcement Directive (2004/48/EC) provides that EU member states must provide for fair and equitable measures, procedures and remedies to ensure the enforcement of intellectual property rights.

A court may, at the request of a successful claimant whose IP right has been infringed, order appropriate measures for the dissemination and publication of the judgment to be taken, at the defendant’s expense (*Civil Procedure Rule 63*).

A claimant who succeeds in establishing copyright infringement can elect for either an account of profits or an inquiry into damages. Damages are intended to put the claimant in the position it would have been in if the infringing act had not occurred, while an account of profits is based on the defendant’s profit as a result of the infringing act. Before making this choice, the claimant is entitled to seek certain outline commercial information (*Island Records Ltd v Tring International Plc*, [www.practicallaw.com/6-100-3170](http://www.practicallaw.com/6-100-3170)).

### Facts

In 1999, a comedy club operator, C, registered two UK figurative trade marks incorporating the words “the glee club”. T produced a widely promoted television show entitled “glee” that was broadcast in the UK in 2009.

C brought trade mark infringement proceedings against T. T counterclaimed for partial invalidity and partial revocation for non-use.

The court held that T had infringed C’s trade mark under sections 10(2) and 10(3) of the Trade Marks Act 1994. C sought various remedies including an interim payment of damages. T applied for a stay of relief pending its appeal to the Court of Appeal.

## Decision

The court granted remedies to C, but stayed the effect of the final injunction until T's appeal had been heard.

It dismissed T's argument that the grant of an injunction forcing it to stop using the word "glee" would contravene the IP Enforcement Directive as it would have a disproportionate effect on its business; for example, the cost involved in re-branding would be significant. The court considered that it would be fair and equitable to grant an injunction against further infringement. The injunction would allow T to refer to the fact that the show was previously called "Glee".

Account of profits was an appropriate remedy. T was an innocent infringer with neither actual nor constructive knowledge of C's rights, although it had continued its infringing activities even after C had informed it of the existence of the registered GLEE mark. C's two-year delay before issuing proceedings also did not bar the equitable remedy of an account. C was a small company, whereas T had substantial resources, and it was reasonable for C to wait to see whether T's show would affect its business before issuing a claim. C had not encouraged T to believe that it was justified in using the "glee" name, nor had T pleaded laches or acquiescence.

Although the choice of name might be one small factor in the show's overall success, it should still be possible to assess its influence as a percentage of the profits. Following *Island Records*, the court ordered disclosure of documents.

A publicity order was also an appropriate remedy, as no publicity had so far been expressly directed at viewers of the show.

It would be difficult to assess the amount ultimately payable to C, whether as damages or profits. There had been possible substantial damage to C's trade mark, despite the fact that there had been little confusion in the minds of the public between T's programme and C's business. With little information to guide the court on quantum, it awarded interim damages of £100,000.

The court stayed the injunction but not the publicity order. A stay of relief would cause damage to either party that could not be made good by a later award of money. C continued to suffer erosion of the distinctive character of its mark and the injunction would cause T substantial losses. However, most of the damage to C's mark had already occurred, and further damage could be limited by the publicity order.

## Comment

Damages inquiries and accounts of profits are unusual in trade mark infringement cases because where infringement is found an injunction is usually granted. Settlements are also frequently reached at this stage. So, there is limited guidance from case law as to how to calculate financial compensation for trade mark infringement, particularly where, as here, the goods or services are not competing brands, and the trade mark has not been licensed, so that damages cannot be readily calculated as a notional royalty. The situation is even more difficult where the damage is caused by more complex and less easily quantifiable harm; for example, dilution or tarnishment.

Assessing how much of an infringer's profits are attributable to the infringing mark is likely to be tricky, and this is the reason that trade mark owners usually opt for an inquiry as to damages, although here the court indicated that it should be possible to calculate this. In these circumstances the court's award of an interim payment of damages, not stayed pending the appeal, is an interesting development.

*Case: Comic Enterprises Ltd v Twentieth Century Fox Film Corporation [2014] EWHC 2286 (Ch).*

# Copyright: UK orphan works licensing scheme

## Summary

The Copyright and Rights in Performances (Licensing of Orphan Works) Regulations 2014 (*SI 2014/2863*) and the Copyright and Rights in Performances (Certain Permitted Uses of Orphan Works) Regulations 2014 (*SI 2014/2861*) (together, the Regulations) came into force on 29 October 2014.

## Background

Orphan works are copyright works or performances where one or more of the copyright owners is unknown or cannot be found. They cannot be copied without the permission of the copyright owner or an orphan works licence from the Intellectual Property Office (IPO), unless one of the exceptions applies; for example, non-commercial research and private study, or news reporting.

EU member states must implement the EU Directive on orphan works (*2012/28/EU*) (the Directive) by 29 October 2014.

## Facts

The Regulations introduce a new UK orphan works scheme (the scheme), which implements the Directive as an exception to copyright infringement.

Under the scheme, persons or organisations wishing to use an orphan work can apply to the IPO for a licence provided that they have first conducted a diligent search to try and identify the copyright owner. The IPO has published guidance for three broad areas of orphan copyright works: film and sound; literary works; and still visual art. This guidance includes details of the sources that applicants must consult and a non-exhaustive list of additional sources that might be helpful.

The licence, which is non-exclusive and applies only to UK use, permits the user, on payment of a reasonable licence fee set by the IPO, to carry out acts for commercial or non-commercial purposes that would otherwise infringe copyright in the UK for up to seven years with the possibility of renewal. The licence fee will be set taking into account fees charged for similar uses of analogous non-orphan works.

Licence applications will be processed electronically and the IPO will maintain a searchable register of applications, granted licences, and applications that have been refused. Copyright owners will be able to search the register and can contact the IPO to stop an application if a licence has not been granted, or if it is already licensed, to claim the licence fee that has been paid. The IPO must hold all orphan work royalties for eight years from the date of the licence and pay these to any copyright owner who comes forward during that period. There is also a discretion to pay royalties after the eight-year period has expired.

The IPO may refuse a licence if a proper diligent search has not been made, the proposed treatment, adaptation or alteration of the orphan work is derogatory, or if it would not be in the public interest to issue a licence. Applicants can appeal to the Copyright Tribunal. Complaints from persons not accepted as rights holders by the IPO may be a matter for the Intellectual Property Enterprise Court.

## Comment

The objective of the licensing and clearance procedures created by the Regulations is to enable users to exploit cultural and commercial opportunities created by orphan works while also assisting copyright owners to benefit from potential licensing opportunities. Copyright owners who wish to ensure that their works fall outside the scope of the licensing regime should ensure that their identity is clearly and unambiguously made known on the work itself.

A parallel EU orphan works scheme also came into force in the UK on 29 October 2014. However, its scope is more limited: permitting cultural organisations in the EU to use orphan works for non-commercial purposes; for example, to digitally reproduce their collections and make them available to the public.

Source: *The Regulations*, 29 October 2014, [www.legislation.gov.uk/ukdsi/2014/978011117644](http://www.legislation.gov.uk/ukdsi/2014/978011117644);  
[www.legislation.gov.uk/ukdsi/2014/978011117682](http://www.legislation.gov.uk/ukdsi/2014/978011117682); IPO, *Apply for a licence to use an orphan work*, 29  
October 2014, [www.gov.uk/apply-for-a-licence-to-use-an-orphan-work](http://www.gov.uk/apply-for-a-licence-to-use-an-orphan-work).



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