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Patents: account of profits

Summary

The Court of Appeal has provided guidance for apportioning profits from a patent infringement where the patented item is sold as part of a larger product, and in relation to the deduction of overheads from the infringer's profits.

Background

A patentee may claim against an infringer for an account of the profits derived by him from the infringement (*section 61(1)(d), Patents Act 1977*).

Apportionment would not be appropriate where, without the infringement, the infringing articles would not have existed, or if the invention was an essential ingredient in the creation of the infringer's whole product. In *Dart Industries Inc v Decor Corp Pty Ltd and another* the High Court of Australia held that the issue of apportionment of overheads and their deduction from gross profits from the infringement depended on whether the infringer would still have a sustainable business if it was not making the infringing products, that is, if it was making and selling only non-infringing products (*[1994] FSR 567, approved in Hollister Inc Dansac AS v Medik Ostomy Supplies Ltd [2012] EWCA Civ 1419*).

Unless there are exceptional circumstances, the court should not permit a party to submit at a hearing for an account of profits material that has not been ordered at the case management conference (*Civil Procedure Rule 62.23*) (CPR 62.23).

Facts

A sued D for patent infringement in relation to snap-in display panels used in shops.

The Intellectual Property Enterprise Court (IPEC) held that the patent was valid and had been infringed by D. A elected for an account of profits. D appealed the IPEC judgment on account of profits.

Decision

The court held that the IPEC had misdirected itself on both the principles of apportionment of profit and on the deduction of overheads, and remitted the case to the IPEC.

An account of profits was limited to profits actually made in order to prevent the defendant's unjust enrichment. In order to quantify the extent to which the infringer would be unjustly enriched if he were to retain the profits of the infringement, the account had to:

- Identify the patentee's invention.
- Decide what (if any) profits the infringer derived from the use of that invention. This could be difficult where the infringer sold products associated with the subject matter of the patent (convoyed goods) or products into which the subject matter of the patent was incorporated.

Regarding the identification of the invention, the claim here was for display panels with slots for snap-in inserts, with the characterising section of the claim relating to the composition and structure of the inserts. The issue was whether profits on the sale of panels used with the infringing inserts were to be included in the account. For the purpose of an account of profits, the scope of the invention was not necessarily the same as the scope of the claims. The IPEC had found that the inventive concept was the composite idea of an insert made of metal and having a particular shape and interacting with the slot of the panel in a particular way, so that the metal insert could snap into the panel.

Having identified the inventive concept, the court considered the question of causation. Whether an infringement had caused a loss for the purpose of assessing damages and whether the infringer had derived a profit from the infringement were different questions.

The IPEC had incorrectly stated that because the sale of panels and inserts went together, the sale of inserts caused the sale of the panels. However, the fact that the sales went together was not sufficient to establish that the whole profit from the composite item was derived from the invention. The facts did not suggest that the infringing insert was the essential ingredient in the creation of D's whole incorporated panel. Therefore, because it was possible that some panels with infringing inserts might be sold to customers who were indifferent to the type of inserts used, and, although the panels could have been made compatible with the infringing inserts, they might also have been compatible with non-infringing inserts, the IPEC should have apportioned the overall profit. The question of apportionment was therefore remitted to the IPEC, although it could still find as a fact that the infringing insert was the essential ingredient of the incorporated panel.

Following *Hollister*, an allowance for overheads would not be permitted where the overheads would have been incurred anyway even if the infringement had not occurred; and the sale of infringing products would not have been replaced by the sale of non-infringing products. The IPEC had found that, in effect, the same overheads would have been incurred in the sale of non-infringing products, so if it had not been selling infringing products D would have used the same overheads in generating profits by lawful trading. D's argument was legally correct if the asserted facts were established, but, because the argument had been rejected on legal grounds, the facts had not been proved.

The IPEC was also wrong to find that running to maximum capacity was a threshold condition for apportionment of overheads and that it had to have the consequence that alternative business was displaced. If an infringer had spare, unused capacity then a tribunal might be sceptical about his evidence to the effect that had he not been infringing he would have used his overheads to support a non-infringing line of business. So the decision on overheads could not stand.

Comment

The difficulties caused by apportionment are one reason why successful patent owners in infringement litigation tend to elect an award of damages rather than an account of profit, unless the latter is likely to result in a significantly larger award. This problem is particularly acute where the actual invention may only relate to part of the product as sold. Although this decision helps to clarify the principles, they still require difficult findings of fact, a particular problem in IPEC proceedings where disclosure, time for hearings and costs are all limited.

If the IPEC finds that the circumstances of this case were not exceptional and CPR 62.23 does not apply, then it will have to reach a conclusion on the basis of the material before it. This will mean that D, on whom the evidential burden falls, will not be able to submit any further evidence.

Case: Design & Display Ltd v Ooo Abbott and another [2016] EWCA Civ 95.

Patents: settlement agreement, final injunctions and account of profits

Summary

The High Court has refused to grant an injunction against further patent infringements in a case involving breach of a settlement agreement, and refused to order an account of profits in the absence of exceptional circumstances.

Background

An account of profits is a statutory remedy for patent infringement (*section 61(1)(d), Patents Act 1977*). Successful claimants must elect for either account of profits or inquiry as to damages. When a claimant has alternative remedies in an action for infringement of intellectual property rights (IPR) the court may order the disclosure of limited information to allow the making of an informed choice (*Island Records Ltd v Tring International plc and another, www.practicallaw.com/6-100-3170*).

In exceptional cases, the court may order an account of profits for breach of contract where normal remedies are inadequate (*Attorney-General v Blake, www.practicallaw.com/9-101-3766*).

Facts

S brought an action against H claiming patent infringement and breach of contract. The breach of contract related to an agreement settling a previous infringement action between S and H over the same patent (the settlement agreement).

The Court of Appeal held that the settlement agreement precluded S from claiming for patent infringement. However, the breach of contract claim was allowed to proceed and the High Court found that H was in breach.

S applied for an injunction to prevent further breaches of the settlement agreement and also for *Island Records* disclosure to enable it to elect between an account of profits or a damages inquiry.

Decision

The court refused to grant an injunction. S had chosen to settle its claims for patent infringement. By electing to pursue contractual rights against H in respect of future infringement, it had substituted contractual remedies for the remedies that would have been available in an action for patent infringement.

Where a party had settled litigation by promising not to infringe an IPR, a claimant should have no more difficulty in obtaining an injunction where that party has broken its word than in a case where no settlement has been reached and the court had found infringement. So the same principles should be applied to the grant of injunctive relief as would apply in a successful action for patent infringement.

Although it was established that an actual infringement of the patent would imply an intention to continue the infringement, despite any promises not to do so, injunctive relief was a discretionary remedy and the court had to be satisfied that it was appropriate in all the circumstances. It was inappropriate to grant an injunction if it was unnecessary for a preventive purpose.

Here, the infringements were historic and unlikely to occur again. If they did, S could seek an injunction and, if there was a repetition, the court's attitude to the grant of an injunction would be different.

In the settlement agreement, S and H had agreed that any identified breach would trigger a mutual co-operation arrangement. In particular, if S discovered a product within a specified territory that it believed to be in breach of the settlement agreement it had promptly to notify H, H had to investigate the issue, and the parties then had to work together to resolve the situation to each other's satisfaction. This mutually agreed remedy and procedure was inconsistent with S having an immediate right to bring contempt proceedings. In addition, H undertook to investigate and report any future alleged breach of the settlement agreement. If a permanent injunction was granted, this would require H to investigate and disclose its own allegedly criminal conduct in the context of contempt proceedings, which would go against the right against self-incrimination.

The election between account of profits and inquiry as to damages was the normal order in patent infringement cases, and a limited amount of information was normally granted in order to enable the successful claimant to make an informed election. However, this claim was for breach of contract not patent infringement.

While the availability of accounts of profits in respect of breaches of contract was set out in *Blake*, the fact that an undertaking was given not to infringe an IPR did not amount to exceptional circumstances justifying such an account. Here, there was nothing exceptional which would justify an order for an account of profits in respect of a successful claim for breach of contract, so the question of *Island Records* disclosure did not arise.

Comment

An important factor in the decision not to grant an injunction was that the settlement agreement provided a mechanism for dealing with future infringements which required the parties to co-operate. Where a settlement agreement includes a mechanism for co-operation in dealing with future alleged infringements, parties should be aware that this mechanism may be regarded as inconsistent with, and preclude the granting of, a permanent injunction, particularly, as here, where the infringing products are manufactured by others outside the jurisdiction of the patent concerned, so that the defendant does not have complete control over the products.

Case: Stretchline Intellectual Properties Ltd v H&M Hennes & Mauritz UK Ltd [2016] EWHC 162 (Pat).

Trade marks: infringement action by unregistered licensee

Summary

The European Court of Justice (ECJ) has held that a licensee of a Community trade mark (CTM) may bring an action for infringement even if the licence is unregistered.

Background

The acts referred to in Articles 17 (transfer), 19 (security) and 22 (licensing) in relation to a CTM shall have effect on third parties in EU member states only after the relevant agreement is entered in the register (*Article 23(1), CTM Regulation (207/2009/EC)*) (Article 23(1)). Before registration, those acts will have effect on third parties who have acquired rights in the CTM after the date of that act but who knew of the act at the date on which the rights were acquired.

A licensee of a UK national trade mark needs to apply to register the licence before it can sue for infringement (*section 25(3)(b), Trade Marks Act 1994*) (section 25(3)(b)).

Facts

A CTM licence stated that the licensee, B, was to assert rights in its own name arising from the infringement of the CTM. B sued H in Germany for infringement of the mark. H appealed, arguing that B could not bring proceedings for infringement because the licence had not been registered.

The Higher Regional Court of Düsseldorf stayed the proceedings and referred to the ECJ the question whether Article 23(1) meant that the licensee could not bring proceedings for infringement of the licensed mark if the licence had not been registered.

Decision

The ECJ held that a licensee of a CTM was not prevented from bringing an action for infringement even if the licence is unregistered.

Although Article 23(1) provides that transfers and licences concerning a CTM shall have effect on third parties in all member states only after entry in the register, this did not prevent B bringing proceedings even if the licence was not registered.

Under Article 22(3) of the CTM Regulation, a licensee's right to bring infringement proceedings was subject only to the CTM owner's consent (without prejudice to the provisions of the licence). Article 22(5) provided that the licence may be entered in the register on request of one of the parties, but did not contain any requirement similar to Article 17(6) (relating to the transfer of CTMs) which provides that as long as the transfer had not been registered, the successor in title could not invoke the rights arising from registration. The purpose behind Article 23(1) was to protect third parties who sought to gain rights in the property of CTMs and not to protect alleged infringers.

Comment

Despite this decision, it remains important for licensees of CTMs to protect themselves by registering against the grant of further licences or the sale of the CTMs by the owner, or other conflicting interests.

Licensees will continue to need the consent of the CTM owner before they can bring infringement proceedings, although an exclusive licensee can commence proceedings if the owner does not do so within an appropriate period after formal notice. This decision appears to apply equally to non-exclusive, sole and exclusive licences.

The position for CTMs is different to that for UK trade marks, where section 25(3)(b) will apply.

Case: Youssef Hassan v Breiding Vertriebsgesellschaft mbH C-163/15.

Trade marks: wrong-way round confusion and passing off

Summary

The Court of Appeal has held that a figurative trade mark incorporating the words "the glee CLUB" was infringed by the US "glee" television series and dismissed a cross-appeal for passing off.

Background

A registered trade mark owner has the right to prevent unauthorised third parties from using, in the course of trade, an:

- Identical or similar sign for identical or similar goods or services to those for which the mark is registered, where there exists a likelihood of confusion or association on the part of the public (*section 10(2)(b), Trade Marks Act*) (TMA) (section 10(2)).
- Identical or similar sign to the registered mark where the trade mark has a reputation in the UK, and where the use of the sign is without due cause and takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark (*section 10(3), TMA*) (section 10(3)).

The elements of the tort of passing off are:

- Goodwill or reputation attached to the relevant goods or services.
- A misrepresentation by the defendant to the public, leading or likely to lead the public to believe that its goods or services are those of the claimant.
- Resulting damage to the claimant (*Reckitt & Coleman Products Ltd v Borden Inc [1990] RPC 341*).

Facts

C operated live stand-up comedy and live music in the UK.

In 1999, C registered a series of two UK figurative trade marks, which incorporated the words "the glee CLUB" (the mark).

F produced a US television series entitled "glee" first broadcast in the UK in 2009. The series was very successful in the UK, songs performed in the programmes were sold in the UK and there were two world concert tours.

C began trade mark infringement proceedings against F and also alleged passing off. The High Court held that C's mark was infringed by F's television series under sections 10(2) and 10(3), but dismissed C's claim for passing off. F appealed and C cross-appealed.

The High Court awarded C an injunction, publicity order, option between damages and an account of profits, interim payment and delivery up of infringing copies of the show (*www.practicallaw.com/7-589-4067*). F appealed and C cross-appealed.

Decision

The court dismissed the appeal and the cross-appeal. It held that F had infringed the mark but was not guilty of passing off.

The High Court had failed:

- To analyse the cause of the confusion of the witnesses, particularly whether it arose because of the similarity of the sign to the mark and the similarity of the services covered by the mark and those for which the sign had been used.
- To consider the lack of "similarity of services".
- To refer to the significance of the context in which the sign was used.

In light of these errors, the court had to review the evidence of confusion again and decide for itself the issue of infringement under section 10(2). It found that much of the evidence supported C's case, and showed that the similarity between the mark and the sign and the similarity between the services provided had led a significant number of people to believe that the two businesses were connected.

Most of C's witnesses on the issue of confusion were people who knew of the television series and, on seeing or hearing of C's business, believed it to be in some way connected with the series, so that they were aware of the F's sign first and C's mark second (wrong-way round confusion). The correct question, however, was whether there was a risk that the average consumer might think that the services came from the same or connected undertakings. The order in which a consumer came across the mark and the sign was not significant. Evidence of wrong-way round confusion was not inadmissible, but must be assessed carefully along with all the other evidence in the context of the particular case. As the analysis of infringement involved an element of looking forward, the question was whether there was a likelihood of confusion in light of F's actual and threatened activities. Evidence of confusion after the television series launched could assist in answering that question.

Here, the issue was finely balanced and so evidence of actual confusion was potentially very persuasive. Overall, the evidence supported a finding of a likelihood of confusion.

On section 10(3) infringement, if there was a likelihood of confusion, average consumers believed or were likely to believe that the services came from the same undertaking, so a link was established. On detriment, the evidence showed that actual and potential consumers were connecting the F's business with that of C. The scale of F's use of "glee" was enough to have a serious impact on C's business and its ability to use the mark for the purposes of identifying and promoting its venues as its own. The evidence showed that the mark was suffering detriment because it was being swamped by F's use of its sign. There was evidence of a change in economic behaviour of average consumers or evidence of a serious likelihood that this change would occur in the future.

On the question of due cause, while F had adopted the name "glee" in good faith and the television series was a creative work, F could have used an alternative name. The services were similar to a material degree, and there remained the likelihood of confusion, and detriment to the mark.

On passing off, although C had goodwill not just in the mark but also in the word “glee”, and the use of the sign had caused confusion, this did not mean that F was guilty of any actionable misrepresentation. C had presented evidence of an instance where someone familiar with C’s clubs had been confused into thinking there might be a connection with the television show, but this was not enough to establish passing off.

Comment

This decision confirms the potential relevance of wrong-way round confusion evidence in trade mark cases, while at the same time pointing out that it was simply part of, and should not detract from, the overall assessment of whether the evidence shows confusion. One of the objections that F raised to wrong-way round confusion was that it meant that a sign that did not infringe when it was first used in a territory might be found to infringe later, once consumers had become familiar with it. Although it was objectionable for a claimant to be able to rely on the defendant’s growing reputation to support a case that would have failed at the date of the defendant’s launch, this was a matter to be taken into account in assessing the value of evidence of actual confusion, not a reason to exclude it altogether.

The finding in relation to passing off also demonstrates the different wider scope of potential protection afforded by a registered as opposed to an unregistered trade mark.

Case: Comic Enterprises Ltd v Twentieth Century Fox Film Corporation [2016] EWCA Civ 41.

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