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Patents: second action for new infringements in the IPEC

Summary

The High Court has held that a successful patentee could bring a second action in relation to infringements discovered after the case management conference (CMC) in the original action.

Background

In patent cases, accepted practice is to allow the successful patentee to add other infringements not pleaded in the liability trial in the inquiry as to damages or account of profits (*Unilin Beheer BV v Berry Floor NV* (*[2007] EWCA Civ 364*).

Civil Procedure Rule (CPR) 63.23(2) provides that parties in IP Enterprise Court (IPEC) proceedings should only be allowed in exceptional circumstances to submit material other than that permitted by the court at the CMC.

Facts

AP sued A for infringement of its patent relating to disc brake calipers for racing cars (the original action). The Patents County Court (now IPEC) held that the patent was invalid for added matter. AP appealed.

The Court of Appeal allowed the appeal (*www.practicallaw.com/9-558-4945*). It reversed the decision on added matter, decided the patent was valid, and ordered an account of profits or an inquiry as to damages at AP's election.

Before its election, AP sought disclosure, not just in relation to products in the original action but also other calipers sold by A. A rejected this broadening of AP's claim to relief and limited its disclosure to products in the original action. AP elected for an inquiry in relation to the original action products.

At the CMC, directions were given solely in relation to the original action products. Later, AP renewed its claim for disclosure in respect of the further calipers, which A resisted. AP then abandoned its claim for relief in the inquiry with regard to calipers other than the original action products and instead started a new action (the second action). In the second action, AP alleged that the patent had been infringed by A's manufacture and sale of ten types of calipers different from the original action products.

A applied to strike out the second action on the basis that, since seven of the calipers were publicly available before the original action, AP could have included them in the original action. Therefore the second action was an abuse of process.

The IPEC refused to strike out the second action to add the further alleged infringements after the patent was held in the original action to be valid and infringed by some of the products cited in that action. The second action was not abusive because patent practice allowed a successful patentee to add products at the stage of inquiry as to damages or account of profits.

A appealed, arguing that the effect of CPR 63.23(2) was to exclude the *Unilin* practice save in exceptional circumstances. AP also challenged statements made by the IPEC that the reforms of civil procedure meant that, in the IPEC, a patentee was not entitled to litigate a broader range of alleged infringements in an inquiry or account.

Decision

The court dismissed the appeal. It held that the second action was not an abuse of process.

The costs cap that normally applied to actions in the IPEC would not apply to the second action because, in effect, the patent had a certificate of contested validity. This was not oppressive because A had been offered a choice by AP as to whether the seven calipers should be included in the damages inquiry or in the second action. Any prejudice as a result of their inclusion in the second action was caused by A's failure to accept that the seven calipers could be litigated in the inquiry. Also, it was only prejudicial if A were to lose. If A won the action in respect of the seven calipers then the absence of a costs cap was to its benefit. If there was relevant prejudice A could apply for a costs cap to be imposed.

The court dismissed A's argument about CPR 63.23(2). Proceedings in the IPEC are generally split between liability and quantum. There will be a first CMC on liability and then a further CMC, if liability was established, on financial relief. The CMC in relation to damages or an account of profits would necessarily allow for documents and evidence concerning quantum to be introduced, in addition to those at the liability trial. So CPR 63.23 should be applied separately in respect of both CMCs. At the quantum CMC the court could decide which issues and infringements should be included.

Generally, rights-holders should not be required to produce evidence of every possible infringement in the liability hearing but merely sufficient examples to enable infringement to be dealt with in a cost-effective and expeditious way. Requiring claimants to specify all infringements at the liability trial would be wasteful and time-consuming. The *Unilin* practice of allowing further infringements, once liability was established, to be considered at the damages inquiry complied with the aims of the IPEC to simplify infringement trials, shorten proceedings and keep them cost-effective.

Civil procedure reforms, including the overriding objective, did not mean that in the IPEC, if further allegations of infringement required additional evidence, patentees would be unable, except in unusual circumstances, to litigate further infringements in an inquiry or account. If that were so, in the IPEC, unlike the High Court, a claimant would be required to come to the first CMC with all possible infringements. If any were missed out, which could have been discovered by reasonable diligence, and if they required further evidence in order to consider them, patentees would be debarred from claiming in respect of them. As a result, in respect of all further infringements, a free licence would be granted because no injunction could restrain them and no damages or other relief would be recoverable.

The IPEC was not an exception to the general law in this regard. When faced with allegations of abuse of process it had to consider whether or not oppression had occurred. The practice set out in *Unilin* applied to the IPEC. If a damages inquiry was unduly complex, then it could be transferred by the IPEC to the High Court once liability had been established.

Comment

Damages inquiries and account of profits are becoming more common in the IPEC due to the more streamlined procedure and cap on recoverable costs which allow disputed factual points to be ruled on more quickly and without the risk of an adverse costs award.

This decision is important for patentees considering whether to bring an infringement action in the High Court or in the IPEC. If damages or an account of profits could only be recovered in the IPEC for infringements specified in the pleadings or identified at the liability CMC, the IPEC would become an unfavourable court for all but the simplest of cases and technologies. Conversely, defendants often argue that products different from those examined in the liability trial do not infringe, meaning that evidence relating to infringement also has to be given in the damages inquiry.

Case: AP Racing Ltd v Alcon Components Ltd [2016] EWHC 815.

Trade mark infringement: account of profits

Summary

The High Court has assessed the amount of profits to be paid by a retailer following an earlier finding of trade mark infringement.

Background

Section 14(2) of the Trade Marks Act 1994 entitles a trade mark owner to "all such relief by way of damages, injunctions, accounts or otherwise" as is available in respect of the infringement of any other property right.

In *Design & Display Ltd v Ooo Abbott and another*, the Court of Appeal held that an infringing defendant was entitled to set off a proportion of its general overheads (attributable to the infringement) that would have sustained a non-infringing business (*www.practicallaw.com/1-625-2388*).

Facts

J sued H for trade mark infringement in relation to J's pheasant logo, which was registered as a UK and EU trade mark for clothing, by H's pigeon logo. H had used the pigeon logo on a selection of its own label brand of menswear.

The High Court held that J's pheasant logo was infringed by H's pigeon logo. J applied for an account of profits. J argued that it was entitled to all the profits from H's sales of the infringing goods and any doubts should be resolved in its favour.

Decision

The court held that J should recover 41% of the net profits from H.

The remedy of an account of profits is not penal: it is a mechanism by which an infringer is required to pay over to the trade mark owner all profits properly attributable to the infringement. A trade mark owner who elects to accept an account of profits rather than damages has to take the infringer as it found it. So, J could not argue that if H had been more efficient in the manner in which it sold infringing goods a greater profit would have been made and so a sum greater than the actual profit attributable to the infringement should be awarded.

On the question of attributing overheads to the infringing activity, H had to show that the same overheads would have been incurred even if the infringement had not occurred. H also had to show that the sale of infringing products would have been replaced by the sale of non-infringing products, which would have been sustained by the overheads used to sustain the infringement. Since H was able to show that it had displayed non-infringing goods of the same type and style as the infringing goods, and that it had sold similar goods before, during and after the period when infringement took place, it satisfied these requirements.

For an overhead to be deductible in principle, the expenditure must be wholly or partly attributable to H's trading activities as a whole and incurred during the period when the infringing clothes were sold. The appropriate method to determine a fair proportion of the deductible overheads consisting of property, depreciation and establishment costs is the square footage basis. This involved dividing the deductible costs by the total sales area of H's business and then multiplying by the area occupied by the infringing goods.

The method of apportioning other categories of overheads is the sales revenue basis which involved dividing the deductible costs by total sales during the relevant period and then applying the resulting percentage to the infringing sales.

As there was no evidence that the infringement drove the sale, there had to be an apportionment of the net profit to ensure that the profits were properly attributable to infringing use of the trade mark, rather than all the profits derived from sale of the items. The pigeon logo had been used on articles of clothing that formed part of H's own brand of clothing and the same lines were sold both before and after the infringement. The garments had value to consumers independently of the presence on the goods of the infringing logo. There was no evidence that the pigeon logo had any significant or lasting effect on sales. Balancing these factors with the conclusions on infringement, an apportionment of 41% of H's net profits was appropriate, based on a royalty rate of 1.5% for the use of third-party brands.

Comment

Reported cases on an account of profits in intellectual property (IP) cases are relatively rare as parties generally agree the amount payable following the trial of the infringement claim. So, this decision, together with *Ooo Abbott*, provides useful guidance to litigants in this area.

This decision confirms that it is possible in trade mark cases, as well as patent cases, for there to be apportionment taking into account what proportion of the profit is due to the act of infringement. In that respect there is no difference between trade marks and other IP rights such as patents.

However, even with this additional guidance, determining a fair apportionment is in many cases unlikely to be straightforward and will require the analysis of difficult findings of fact.

Case: Jack Wills Ltd v House of Fraser (Stores) Ltd [2016] EWHC 626 (Ch).