

Neutral Citation Number: [2017] EWHC 932 (IPEC)

Case No: CC12 P01174

IN THE HIGH COURT OF JUSTICE

**CHANCERY DIVISION**

**INTELLECTUAL PROPERTY ENTERPRISE COURT**

Royal Courts of Justice, Rolls Building

Fetter Lane, London, EC4A 1NL

Date: 26/04/2017

**Before** :

HIS HONOUR JUDGE HACON

- - - - - - - - - - - - - - - - - - - - -

**Between :**

|  |  |  |
| --- | --- | --- |
|  | 1. **OOO ABBOTT** 2. **GODFREY VICTOR CHASMER** | Claimants |
|  | **- and -** |  |
|  | 1. **DESIGN & DISPLAY LIMITED** 2. **EUREKA DISPLAY LIMITED** | Defendants |

- - - - - - - - - - - - - - - - - - - - -

- - - - - - - - - - - - - - - - - - - - -

**Chris Aikens** (instructed by **Gordons Partnership LLP**) for the **Claimants**

**Tom St Quintin** (instructed by **Appleyard Lees IP LLP**) for the **Defendants**

Hearing date: 1 March 2017

- - - - - - - - - - - - - - - - - - - - -

Approved Judgment

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

.............................

HIS HONOUR JUDGE HACON

**Judge Hacon :**

**Introduction**

1. In a judgment dated 24 February 2016, [2016] EWCA Civ 95, the Court of Appeal allowed an appeal against an order made by me dated 16 October 2014, in which I assessed sums due to the claimants (collectively referred to as “Abbott”). This followed the trial of an account of profits and my judgment of 4 September 2014, [2014] EWHC 2924 (IPEC) (“the first account judgment”).
2. Earlier HHJ Birss QC had found that Abbott’s European Patent (UK) No. 1 816 931 (“the Patent”) was valid and had been infringed by the defendants, see judgment of 30 May 2013, [2013] EWPCC 27.
3. The Patent claimed a display panel of the type used to display goods in shops. The important part of the invention concerns inserts made of a resilient metal, typically aluminium. The inserts are located into horizontal slots cut into the panels. Shelves or hangars for displaying goods are supported by the inserts.
4. Abbott settled their case against the second defendant and so the trial on the account concerned only the first defendant (“Design & Display”).
5. The Order of the Court of Appeal on 24 February 2016 included this:

“2. The Account of profits be remitted to the Intellectual Property Enterprise Court for determination of the following issues:

1. What proportion of sales of slatted panel sold together with infringing inserts should be included within the Appellant’s account of profits?
2. What deductions (if any) for general overheads may the Appellant make in its account of profits?”

**The background facts**

1. Lewison LJ quoted from my description of Design & Display’s business:

“[5] Design & Display manufactures and sells retail equipment, including display panels for use in shops. … [Its] primary business was as a joiner for shopfitters, making bespoke items of shop furniture, … called ‘equipment’. This equipment included displays, some of which had slatted panels (sometimes referred to as slatboards or slatwalls) sold both in standard sizes and as custom-sized panels. These were the panels with horizontal slots into which the aluminium inserts could be introduced – in the case of the infringing inserts, introduced by a snap-in process. Shelves or hangars for displaying the goods could then by located into the inserts.

[6] In the relevant period Design & Display sold the slatted panels in two ways. First, it sold the panels with inserts separately for subsequent assembly by the customer. At the trial these were referred to as ‘unincorporated’ panels and inserts. Secondly, Design & Display sold pre-assembled displays of which the panels with inserts were part. These were referred to as ‘incorporated’ panels and inserts. In addition, some unincorporated inserts were sold without slatted panels.

[7] Design & Display did not itself make the inserts but purchased them from an aluminium extruder in the form of lengths which were cut into sections to make the individual inserts. The panels were purchased in the form of plain MDF panels into which the slots were machined by Design & Display.”

**Profits due to Abbott on Design & Display’s sale of panels**

**The law**

1. The Court of Appeal set out the overall task of a court when deciding which part of the profits made by the infringer in the course of his infringing business fall due to the patentee. Lewison LJ, with whom the Chancellor of the High Court and Tomlinson LJ agreed, said:

“[7] [Section 61(1)(d) of the Patents Act 1977](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I99118A20E44911DA8D70A0E70A78ED65) entitles a patentee to claim against an infringer an account of the profits ‘derived by him from the infringement’. An account of profits is confined to profits actually made, its purpose being not to punish the defendant but to prevent his unjust enrichment. The underlying theory is that the infringer is treated as having carried on his business (to the extent that it infringes) on behalf of the patentee. The broad principle is that the patentee is entitled to profits that have been earned by the use of his invention. If the patentee does not recover those profits, the infringer will have been unjustly enriched. So the purpose of the account is to quantify the extent to which the infringer would be unjustly enriched if he were to retain the profits derived by him from the infringement. That requires the fact finder first to identify the patentee’s invention and second to decide what (if any) profits the infringer derived from the use of that invention. The second of these questions may give rise to difficulty where the infringer sells products associated with the subject matter of the patent (often called ‘convoyed goods’) or products into which the subject matter of the patent is incorporated. The court must determine what profit has been earned, in a legal sense, by the infringer’s wrongful acts. It is clear, then, that an account of profits looks at the facts through the lens of what the infringer has done; and what the patentee might have suffered by way of loss in the real world is irrelevant.”

1. Thus, there are broadly two steps:
2. Identify the invention.
3. Identify the profits (if any) made by the defendant from his use of the invention, taking into account convoyed goods and/or products into which the subject matter of the invention is incorporated.

*Identifying the invention*

1. I begin with section 125(1) of the Patents Act 1977:

“*125(1) For the purposes of this Act an invention for a patent for which an application has been made or for which a patent has been granted shall, unless the context otherwise requires, be taken to be that specified in a claim of the specification of the application or patent, as the case may be, …*”

1. Generally speaking, an invention disclosed in a patent will be that which is set out in a claim. All the claims of the Patent are product claims for “A display panel…” with stated characteristics of the panel including the presence of an insert which itself has stated features. All the claims after claim 1 are dependent upon claim 1.
2. At first glance the answer to the first issue remitted by the Court of Appeal is self-evident. The inventions claimed are panels and panels are what Design & Display sold, so it should account for its profits on panels, including the inserts. However, in an inquiry as to damages or an account of profits it is necessary to focus on the ‘invention’ in a narrower sense.
3. In the first account judgment I discussed the relationship with the invention as claimed and an account of profits (at [19]-[21]. I suggested that looking at the claims was not useful. I therefore distinguished the invention from the inventive concept:

“[26] Abbott claim the profit made by Design & Display from the sale of panels in which infringing inserts were incorporated. There is no doubt that such panels were infringing products – see claim 1 of the Patent. But as I have said, that is not a useful guide to the scope of the account. I must consider the inventive concept.”

1. In the present judgment, like the Court of Appeal I will for brevity use the word ‘invention’ to mean the narrower idea of the inventive concept.
2. Generally, as one progresses down the list of claims in a patent the matter set out in each claim becomes successively more extensive and the scope of the monopoly correspondingly more confined. Lewison LJ referred (at [8]) to Laddie J’s example of a new form of tin whistle in *Celanese International Corp v BP Chemicals Ltd* [1999] RPC 203. Laddie J hypothesised at [51]:

“Claim 1 is for the tin whistle. Claim 10 is for a funnel to which the new tin whistle is connected. Claim 15 is for a battleship with a funnel to which the tin whistle is connected.”

1. The invention in Laddie J’s example is neither a battleship, nor a funnel, nor even a tin whistle. It would probably be some aspect of the tin whistle – in the first account judgment I pursued the example (at [20]) by suggesting that it could be a new shape of part of the interior of the whistle which makes it louder.
2. In every real case the invention, in this precise sense, must be identified.

*Identifying the profits made by the defendant from his use of the invention*

1. In his paragraph 7 (see above) Lewison LJ pointed out why the identification of relevant profits may not be straightforward, given that the invention may form only part of the articles sold by the infringer and/or because it may be that convoyed goods must be considered.
2. Lewison LJ said that this part of the court’s task turned on causation:

“[14] Having identified the inventive concept of the patent, it is then necessary to address the question of causation. It has been consistently said that an assessment of damages for patent infringement and the taking of an account of profits proceed on a common principle of legal causation: [*Celanese International Corp v BP*](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I838C5300E42711DA8FC2A0F0355337E9) *Chemicals* at [37] (citing *Imperial Oil v Lubrizol* [1966] 71 CPR (3d) 26). But the question whether an infringement has caused a loss (in the legal sense) and the question whether the infringer has derived a profit from the infringement are different questions. Mr Cuddigan QC submitted that the question of causation was to be answered as a matter of common sense, relying on [*Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=IAE4D9B30E42711DA8FC2A0F0355337E9). However, as Lord Hoffmann pointed out in [*Environment Agency (formerly National Rivers Authority) v Empress Car Co (Abertillery) Ltd* [1999] 2 AC 22](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=IA1BAEAD0E42711DA8FC2A0F0355337E9), at 29:

‘… common sense answers to questions of causation will differ according to the purpose for which the question is asked. Questions of causation often arise for the purpose of attributing responsibility to someone, for example, so as to blame him for something which has happened or to make him guilty of an offence or liable in damages.’

[15] Having given examples he said at 31:

“These examples show that one cannot give a common sense answer to a question of causation for the purpose of attributing responsibility under some rule without knowing the purpose and scope of the rule.’

1. Lewison LJ went on to consider causation as discussed by the Court of Appeal in *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] R.P.C. 443 and in *Meters Ltd v Metropolitan Gas Meters Ltd* (1910) 27 RPC 721 (Eve J.) and (1911) 28 RPC 157 (CA). He emphasised that both were concerned with an inquiry as to damages, not an account of profits (at [17] and [20]). I understand Lewison LJ to have meant that the reasoning on causation in cases concerning an inquiry cannot be assumed to apply in relation to an account of profits.
2. Lewison LJ next considered earlier cases dealing with an account of profits:

“[21] In [*Gerber Garment Technology v Lectra Systems* [1997] RPC 443](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=IAE4D9B30E42711DA8FC2A0F0355337E9) Staughton LJ referred to [*Dart Industries Inc v Decor Corp Pty* *Ltd* [1994] FSR 567](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I94AE7690E42711DA8FC2A0F0355337E9) with apparent approval on the question of the scope of an account of profits; and part of the reasoning in that case has also been expressly approved by the Court of Appeal in [*Hollister Inc v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419; [2013] FSR 24](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I0B9750502AD611E2BF59D6172B328D19) . I begin with [*Dart Industries v Decor Corp* [1994] FSR 567](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I94AE7690E42711DA8FC2A0F0355337E9) which deals with both the issues that arise in our case, although in the opposite order.

[22] Decor was a manufacturer of plastic kitchen canisters. The canisters had lids incorporating a press-button seal. The seal infringed Dart’s patent. In giving directions for the taking of an account the primary judge ruled that only costs which were directly attributable to manufacture or sale of the infringing product should be taken into account. He also directed that the profits for which Decor had to account were the profits from the manufacture and sale of the complete canisters, including the press-button seals. The intermediate appeal court (the Full Court) reversed the primary judge on the first of those directions, holding that Decor would be at liberty to show that various categories of overhead costs contributed to the obtaining of the relevant profit, and to show how and in what proportion they should be allocated in the taking of the account of profits. However they upheld the primary judge on the second direction. Dart appealed to the High Court on the first direction and Decor sought leave to cross-appeal on the second.

[23] The High Court refused leave to cross-appeal against the second direction because there were concurrent findings of fact against Decor by both the primary judge and the Full Court. But as I read their judgment they approved the way in which the Full Court described the question to be answered:

‘The respondent cannot gainsay that it is only entitled to the profits obtained by the infringement. If, for example, a patented brake is wrongfully used in the construction of a motor car, the patentee is not entitled to the entire profits earned by sales of the motor car. He must accept an appropriate apportionment. But the question is how that principle shall be applied to a situation where the patent relates to the essential feature of a single item … it seems to us that it was open to the judge to find, and he correctly found, that what characterised the infringing product was the press button lid, without which this particular container would never have been produced at all.’

[24] The High Court went on to approve the statement of Windeyer J in [*Colbeam Palmer v Stock Affiliates Pty* [1972] RPC 303](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I5689A880E43611DA8FC2A0F0355337E9) at p.315:

‘If one man makes profits by the use or sale of some thing, and that whole thing came into existence by reason of his wrongful use of another man’s property in a patent, design or copyright, the difficulty disappears and the case is then, generally speaking, simple. In such a case the infringer must account for all the profits which he thus made.’

[25] On the facts, as shown by the quotation from the Full Court, [*Dart Industries v Decor Corp* [1994] FSR 567](http://login.westlaw.co.uk/maf/wluk/app/document?src=doc&linktype=ref&context=22&crumb-action=replace&docguid=I94AE7690E42711DA8FC2A0F0355337E9) was a case in which but for the invention the canister ‘would never have been produced at all’. ”

*An essential feature of the goods and a feature of the goods without which the goods would not have existed*

1. In the part of his judgment just quoted Lewison LJ identified two circumstances in which a losing defendant in a patent action should also account for profits from sales of goods other than those in which precisely embody the invention:
2. Where the invention relates to an essential feature of those goods.
3. Where those goods would not have existed had the defendant not infringed the claimant’s patent.
4. Mr St Quintin, who appeared for Design & Display, submitted that these were in fact alternative characterisations of the same thing: a patented feature of a product is an essential part of the product if, without that feature, the product would never have been produced. Mr Aikens, who appeared for Abbott, argued that this was not so and pointed to paragraph 28 of the Court of Appeal’s judgment in which Lewison LJ referred to what Laddie J had said in *Celanese* about *Dart*:

“[28] Thus he, too, concluded that an apportionment would be inappropriate where without the infringement the infringing articles would not have existed or where the invention was an essential ingredient in the creation of the infringer’s whole product.”

1. I think that Mr Aikens is right. On a fair reading of paragraph 28 the two criteria are alternatives. If either is satisfied, apportionment is not appropriate. In the passage from the judgment of the Australian Full Court in *Dart*, quoted and approved by Lewison LJ in his paragraph 23, it appears that the Full Court found that the lid with a press-button seal was the essential feature of the canister andthat without such lids the canisters would not have been produced at all. This means that the two criteria are not mutually exclusive alternatives.
2. Since the two tests do not amount the same thing, it is necessary for me to indicate my understanding of what the Court of Appeal had in mind when he referred to an ‘essential feature’ of a product.
3. The principle that an infringer must compensate a patentee in relation to lost sales of entire products where the embodiment of the invention is an ‘essential feature’ of those products seems to have had its origin in the judgment of Eve J in *Meters Ltd v Metropolitan Gas Meters Ltd* (1910) 27 RPC 721, approved by the Court of Appeal (1911) 28 RPC 157. This related to an inquiry as to damages. *Meters* was not referred to by the High Court of Australia in *Dart Industries Inc v Decor Corp Pty Ltd* [1994] F.S.R. 567, but either independently or by indirect influence the same idea was adopted by the High Court in the context of an account of profits.
4. Lewison LJ summarised the relevant facts in *Meters*:

“[19] *Meters v Metropolitan Gas Meters* was another case of the assessment of damages for patent infringement. The patented article was a mechanism for controlling the supply of gas in a pre-paid gas meter. The patentee was a manufacturer of gas meters, and claimed damages representing lost sales of gas meters. It did not claim an account of profits. The defendant had sold 19,500 gas meters incorporating the patented article. However, the patentee claimed the profit on sales which it claimed that it would have made if the defendant had not infringed. It did not claim the profit that the infringer had made. The number of lost sales on which damages were awarded was assessed by the Master at 5,000 meters, although on appeal Eve J reduced that number to 3,500. It was in that context that the judge had to decide whether the damages should be assessed as the whole of the profit that the patentee would have made on the lost sales, or only such part of that profit was attributable to the patented article, which represented approximately 1/44th of the whole profit. It was in that context that Eve J said:

‘… the parts incorporating the invention, are, in my opinion, component and essential parts of the meter regulating and controlling – from the Gas Company’s point of view – the most important functions of the meter, that is to say the supply of the exact amount of gas to which the consumer is entitled having regard to the amount he has paid and the current price of gas. In my opinion, the mechanism protected by these Patents is of the very essence of the meter; … and … it is no answer to the Plaintiffs whose invention has been infringed to say that similar results could have been achieved without infringing the Patent. In this case I think that the inclusion in the Defendants’ meter of the infringement results in the meter itself being an infringement … and that the Master has rightly held that the profit on the meters is a proper factor to be taken into the calculation and not the profit only on those parts of the inventions.’ ”

1. As Lewison LJ explained, in *Dart* the judge at first instance found as a fact that what characterised the plastic kitchen canister was the patented press-button lid, without which the canisters would never have been produced. The Full Court endorsed this finding and the further finding that this qualified the lid as the essential feature of the canister.
2. I think that what unites these cases is that the protected feature of the product was functionally and/or commercially the most significant part of the whole. It was in that sense essential. I include the possibility of its being commercially the most significant part because in *Dart* it might well have been said that the most important function of a plastic kitchen container is to contain its contents and for the most part that is performed by the body of the container. However, it was presumably the lid which gave the canister in question its commercial advantage over competitors and was thus, commercially, the most important part.
3. Neither test for whether apportionment is appropriate is binary. It could be that from the point of view of some purchasers the relevant feature is essential but from the point of view of others it is not. Similarly, it is possible that if the protected feature had not been available for use, some of the entire goods would have come into existence, but fewer of them. In my view, in such cases the court should make a partial apportionment: the infringer must account for the profit on a proportion of the entire articles.

*The sale of goods or services are driven by the sale of infringing goods*

1. There is a third test identified by Lewison LJ. If satisfied, it requires an infringer to pay over profits on non-infringing goods or services, i.e. convoyed goods or services. Lewison LJ approved the unchallenged proposition contained in the first account judgment that if sales of the products embodying the patent infringed ‘drove’ the sales of other goods, the latter qualified as sales of convoyed goods and the defendant was accountable for profits on those sales, see [29]-[30] and [36].
2. I first used the criterion of one set of sales ‘driving’ another in *Alfrank Designs Ltd v Exclusive (UK) Ltd* [2015] EWHC 1372 (IPEC), at [29]-[34]. That was a judgment in an inquiry as to damages. There, I stated that I was using the term to mean that there was a causative link in the mind of the purchaser between his decision to purchase the goods protected by the claimant’s right and a consequential decision also to buy the convoyed goods.
3. The inquiry in *Alfrank* followed the admission by the first defendant, a furniture wholesaler, that it had infringed unregistered design rights in the design of two dining room tables. The rights were owned by the claimant, a competing furniture wholesaler. The evidence was that consumers in the market for new household furniture characteristically decide first on the dining room table they like. Having done so, they buy matching furniture. Once the sale of the dining room table had been secured via a furniture retailer, the wholesaler would make sales of other items in the same range via the retailer. In that sense the sales of infringing dining room tables by the first defendant in *Alfrank* ‘drove’ sales of other convoyed items.
4. Not any link between two sets of sales will do. In his review of the law on convoyed goods as it applies in an inquiry as to damages Staughton LJ observed in *Gerber* ([1997] RPC 443, at 456):

“There is no dispute as to causation or remoteness in the present case; nor can I see any ground of policy for restricting the patentees’ right to recover. It does not follow that, if customers were in the habit of purchasing a patented article at the patentee’s supermarket, for example, he could claim against an infringer in respect of loss of profits on all other items which the customers would buy in the supermarket but no longer bought. The limit would be one of causation, or remoteness, or both.”

1. In *Gerber* the patented article was a machine for the automatic cutting of fabric. The Court of Appeal awarded damages in relation to the claimant’s lost sales of such machines and, among other things, for loss of profits on what would have been convoyed sales by the claimant of (i) CAD systems which enabled efficient and quick production of cutting patterns and automatic sizing of patterns, (ii) a proportion of spare parts and (iii) servicing (at 448-456).
2. To my mind, Staughton LJ’s distinction, illustrated by his supermarket example, applies equally in the context of an account of profits and is consistent with the reasoning of the Court of Appeal in the present case. For goods or services to qualify as convoyed, there must be a causative link between their sale and the consequential sale of infringing goods. This means, first, that there is a perceived compatibility, functional interaction, or some other connection of that nature between the infringing goods and the putative convoyed goods or services. Secondly, the sale of the putative convoyed goods or services must be consequential upon the sale of the infringing goods or services (see the Court of Appeal at [36]). The sale of the infringing goods or services must constitute the primary purchasing decision. For example, in *Gerber* the purchaser principally sought to buy fabric cutting machines. The CAD systems, spare parts and servicing followed on from that. Likewise, in *Alfrank* the first purchasing decisions concerned dining room tables and the other purchases followed on as a consequence.

*Evidential burden*

1. The Court of Appeal stated (at [53]) that the evidential burden in relation to the profits to which a successful claimant is entitled lies on the infringer. I take that to include the issues of whether the defendant must pay to the claimant his profits on entire articles or an apportioned part of the profits and whether there were sales of convoyed goods for which the defendant must account. The relevant evidence is more likely to be in the control of the infringer than the claimant.

*Summary of the law*

1. So that there is no doubt as to the basis on which I approach the first issue remitted by the Court of Appeal, I would summarise the law under this head as follows:
2. In an account of profits the claimant is entitled to the infringer’s profit made from the exploitation of the right infringed.
3. Where the right is a patent, the invention must be identified. Where the invention is a product, the claimant is entitled to the infringer’s profit made from the sales of articles or part articles which embody the invention.
4. Where the patent protects only part of an article sold by the infringer, the claimant is entitled to the profit made by the infringer from the sale of the entire article if either
5. the protected part is the essential feature of the entire article, or
6. the entire article would never have been made by the infringer if there had been no infringement of the claimant’s right.
7. Part of an article is its ‘essential feature’ if the part is functionally and/or commercially the most significant part of the whole.
8. If the patent protects part of an article and neither 3(a) nor (b) apply, the court must assess how much of the total profit made by the infringer on the sale of the article is to be apportioned to the protected part of the article. The claimant is entitled to that part of the total profit.
9. Where the sale of an article protected by the patent drives the sales of other, unprotected, goods or services, the claimant is in addition entitled to the profit made by the infringer on the sale of those other goods and services (convoyed goods and services).
10. The sale of an article ‘drives’ the sales of other goods or services if there is a causative link between the purchase of the article protected by the patent and a consequential purchase of the other goods or services.
11. There will be a causative link where there is a perceived compatibility, functional interaction or other connection of that nature between the protected article and the other goods or services.
12. The purchase of the putative convoyed goods or services must be consequential in the sense that the purchase of the protected article is the principal purchasing decision in the mind of the buyer and the purchase of the other goods or services follows as a consequence.
13. In relation to the foregoing issues the evidential burden rests on the infringer.

**The first remitted issue: What proportion of sales of slatted panel sold together with infringing inserts should be included in the account of profits?**

*Identifying the invention*

1. I identified the invention (there referring to it as the inventive concept) in the first account judgment:

“[28] … In my view the inventive concept was not just the idea of an insert made of a resilient metal (which was known). It was the composite idea of an insert made of such a metal *and* its having a particular shape *and* its interacting with the slot of the panel in a particular way, such that the metal insert could engage with the panel by snap-in means.”

1. This characterisation of the invention was approved by the Court of Appeal at [8]-[13].

*The alternative ways in which panels were sold with inserts*

1. The sales of panels I have to consider under this head were either sold with infringing inserts incorporated in them or the two were sold simultaneously but apart, the inserts then being sold by length, i.e. to be divided into individual inserts by the customer.

*Panels with incorporated inserts*

1. Abbott argued that the inserts and that part of the panel which embodied the invention were together the essential feature of the entire product simply because the invention included part of the panel. I do not accept that this follows. For the reasons discussed above, the question is whether the relevant part was functionally and/or commercially the most important part of the whole.
2. Design & Display pointed to the evidence of Mr Lloyd, Managing Director of Design & Display who said that when Design & Display stopped selling infringing inserts, its sales remained constant. I accepted that evidence in the first account judgment (at [46]) but also pointed out that this could have been because Design & Display refocussed its selling strategy on the non-infringing sector of the market.
3. It is probable that only a small proportion of Design & Display’s customers wanted the infringing insert and no substitute, but I do not believe that the proportion was negligible as Mr Lloyd claimed. Mr Lloyd conceded that for some customers the infringing inserts offered advantages and no doubt, while Design & Display continued to offer the infringing inserts, those advantages were emphasised. I think it is likely that for those customers the embodiment of the invention – the infringing insert and the slot in the panel – was the essential feature of the entire product. It is very difficult to say how many they were, but I will estimate that this was the case in relation to 10% of sales.
4. Design & Display must pay its entire profit on panels and inserts in relation to that 10% of its sales.

*Panels separate from inserts*

1. I think that on a strict view the panels bought separately from the infringing inserts are not convoyed sales because part of the invention is embodied in the panels. There are therefore to be treated the same way as panels in which the infringing inserts were incorporated.
2. Alternatively, in the first account judgment I found (at [30]) that where customers specified a wish to buy the infringing inserts because of the advantages they offered, the inserts drove associated sales of compatible panels which were thus convoyed sales. This was not challenged on appeal. It would follow that Design & Display is liable for the profits made on such sales of both inserts and panels because the sales of the panels were convoyed sales.
3. Some of Design & Display’s customers who bought the panels and inserts separately will have wanted specifically the infringing insert. Had Design & Display not been able to provide those inserts, it is likely that those customers would have gone elsewhere for panels. I again estimate that in relation to sales of the panels with separate inserts, 10% of the sales of panels were driven by the sales of accompanying inserts in that way. Abbott is entitled to the whole of Design & Display’s profit on 10% of its sales of infringing inserts and separate but associated panels.

*The customer did not specify infringing inserts*

1. That leaves, in each case, the other 90% of panels sold. Where the customer did not specify infringing inserts, Design & Display still made infringing sales. The question to be resolved is what part of the profit on the sales of the panels is to be apportioned to the invention. Design & Display is liable for that part of the profit.
2. In the first account judgment I said (at [32]) that the part of the invention embodied in the panel was only a modest section of the panels sold, namely the slot into which the infringing inserts were fitted. I had in mind the size of the slot relative to the panel as a whole, but I do not believe that this resolves the present issue. I have to consider what proportion of profit made on panels sold should be apportioned to the invention, i.e. the inserts and the slots in the panels into which the inserts fitted. It makes no difference whether the inserts were incorporated before or after sale.
3. One, though not necessarily the only way to approach this is by reference to function. The function of the panel is to act as a frame on which goods can be displayed. One of the requirements of the design is to have a slot compatible with the inserts used. That is a minor, but not insignificant part of the whole function.
4. The best way to estimate the correct figure is to separate the profit on panels and inserts. Abbot is entitled to the whole of the profit made on the relevant inserts plus 10% of the profit made on the panel.

**Deductible overheads**

**The law**

1. In his discussion of the law Lewison LJ again referred with approval to the judgment of the High Court of Australia in *Dart v Decor* and identified the overall issue regarding deductible overheads in the following way:

“[39] In my judgment the question posed by the court is a relatively simple one to ask (even if it may not be easy to answer): if the defendant had not infringed the patent would he have carried on a non-infringing business which would have been sustained by the overheads in fact used to sustain the infringement?”

1. Lewison LJ went on to consider *Hollister Inc v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419; [2013] F.S.R. 24 and applied it to the present case:

“[42] … It seems to me to be clear that if the infringer would have manufactured or sold non-infringing products had he not infringed and would have incurred overheads in supporting that manufacture or sale, then he ought to be allowed a proportion of his general overheads. The question is not dependent on whether the infringer is or is not working to capacity. The bottom line is whether (a) the overheads would have been incurred anyway even if the infringement had not occurred and (b) the sale of infringing products would not have been replaced by sale of non-infringing products. It is in those circumstances that an allowance for overheads will not be permitted.”

1. Thus, issues such as opportunity cost and working to capacity, which were given some prominence in *Dart* should not be central to the question whether the infringer should be permitted to deduct overheads from his profits. The infringer working to capacity is not a threshold requirement, but nor is it irrelevant. If the infringer is working to capacity the infringing business is likely to have displaced non-infringing business without increasing overheads. Had there been no infringement the business would have had the same overheads, the non-infringing business would not have been displaced and therefore the sale of infringing products *would* have been ‘replaced by’ the sale of non-infringing products. Condition (b) would not be satisfied and the allowance for the overheads would be permitted. In other words, working to capacity can be a useful way for an infringer to demonstrate that it is entitled to deduct overheads.
2. By extension, not working to capacity could raise an evidential difficulty for the infringer. Lewison LJ said:

“[51] … I do not doubt that, as Mr Cuddigan submitted, if an infringer in fact has spare capacity which he has not used he may find that a tribunal is 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. As Mr Cuddigan said, the obvious question would be: if you had spare capacity why did you not use it to support the non-infringing line of business?”

1. With regard to the evidential burden generally, in *Hollister* the Court of Appeal indicated (at [85]) that the burden rests on the defendant to show that overheads are attributable to the infringing activity and may thus be deducted from its profits.
2. In paragraph 38 of the first account judgment, I summarised the principles to be applied to whether costs incurred by a defendant in his infringing business may be deducted from the gross relevant profits assessed by the court in an account of profits. The Court of Appeal criticised the third principle. Guided by this and so that the parties understand how I have approached the second remitted issue, I amend and restate that summary as follows:
3. Costs that were associated solely with the defendant’s acts of infringement are to be distinguished from general overheads which supported both the infringing business and the defendant’s other, non-infringing, businesses.
4. The defendant is entitled to deduct the former costs from gross relevant profits.
5. A proportion of the infringer’s general overheads may be deducted from gross relevant profits unless

(a) the overheads would have been incurred anyway even if the infringement had not occurred, and

(b) the sale of infringing products would not have been replaced by the sale of non-infringing products.

1. The evidential burden rests on the defendant to support a claim that costs specific to the infringement and/or a proportion of general overheads are to be deducted from profits due to the claimant.
2. The same approach was taken by HHJ Pelling QC in *Jack Wills Ltd v House of Fraser (Stores) Ltd* [2016] EWHC 626 (Ch), at [22].

**Second remitted issue: what deductions (if any) for general overheads may Design & Display make?**

*The Island Records disclosure*

1. After the trial on liability, Judge Birss ordered *Island Records* disclosure. This was given in broad brush form, as was appropriate. It indicated that Design & Display had made a net profit of nearly £106,000 from sales of infringing inserts alone, this assuming that Abbott had no claim in relation to panels and that all the deductions from profits then claimed were to be allowed. Abbott elected for an account of profits. In the evidence for the trial of the account Design & Display’s profit had been transformed into a loss. Design & Display now says that no payment at all is due.
2. While it is to be expected that detailed evidence will provide a different figure in an account from that given in *Islands Records* disclosure, a transformation such as this one could be the result of negligent or even deliberately misleading disclosure at the *Island Records* stage by the infringer. In an appropriate case it would be open to the claimant to apply to re-elect for an inquiry as to damages and claim the costs thrown away. That was not done here, so I need consider the discrepancy no further.

*Costs associated solely with Design & Display’s acts of infringement*

1. In the first account judgment, one set of costs was identified which was associated solely with Design & Display’s acts of infringement. These were the labour costs incurred in cutting the slots in MDF panels to accommodate the infringing inserts. My finding in respect of these labour costs was not disturbed by the Court of Appeal and so they should be directly deducted from the profits from infringement. Abbott has speculated that other costs could also be better characterised as directly attributable costs rather than general overheads, but I am not satisfied of this. I am here just concerned with the general overheads, as required by the Court of Appeal. It should go without saying – though late submissions from the parties suggest that it may need spelling out – the labour costs to be directly deducted from Design & Display’s profits cannot also form part of the general overheads.

*Whether Design & Display can deduct general overheads*

1. Following the ruling by the Court of Appeal, Design & Display had to establish on the facts that if its infringements had not occurred:
2. it would have incurred the same overheads; and
3. its sales of non-infringing products would have been at the same level as its sales of infringing plus non-infringing products made in reality.

Level of overheads

1. Mr Lloyd’s evidence was that the cost of sales and administrative expenses are not dependent on the type of insert sold. Abbott complained that this was a mere assertion and not supported by any documentary evidence. That is true, but there was nothing in the evidence to suggest that the part of the business using non-infringing inserts was conducted in a way significantly different from the business in infringing inserts. I would find it surprising if it was.
2. Abbott also pointed out that there was a difference in price between infringing and non-infringing inserts. Some of the non-infringing alternatives were cheaper, some more expensive. Therefore, given the same level of sales, the revenue generated would be different. If revenue were used to apportion overheads, the apportionment would have been different had there been no sales of infringing inserts. This again is true, but on the information I have I think Abbott was grinding the argument too fine. Some non-infringing alternative cost more, some cost less – this may have broadly evened out, at least sufficiently for a necessarily broad-brush account of profits.
3. I think it is likely that a particular level of business by Design & Display in inserts and panels incurred the same overheads whether it was dealing with infringing or non-infringing inserts. The first criterion of the Court of Appeal is satisfied.

Level of sales

1. I have accepted Mr Lloyd’s evidence that after sales of infringing inserts came to an end, Design & Display’s sales exhibited no significant fall. That may have been because non-infringing inserts were given greater promotion, but that would no doubt have been the case if the infringing inserts had never been available in the first place. Abbott suggested another possibility: customers were lured to Design & Display by the offer of infringing inserts and after those inserts ceased to be available, customers bought alternative inserts out of apathy. That is possible and Abbott is right to point out that there was no evidence from customers, which could have been brief. But Abbott’s suggestion was too speculative in my view to be given much weight. The Court of Appeal’s second criterion is also satisfied.
2. Accordingly, Design & Display is entitled to deduct general overheads from its profits on the infringing business.

*Specific arguments raised by Abbott in relation to overhead deductions*

Whether overheads should be apportioned by reference to the entire business

1. Abbott argued that apportioning overheads by reference to the entire business was bound to create anomalies unless the entire business in question is homogeneous. But Abbott did not identify a simple and fairer alternative and I cannot see that there is one.

Whether apportionment should be by reference to revenue or volume

1. Design & Display has apportioned its overheads on a sales revenue basis. It calculated the percentage of revenue generated by sales in the infringing business as a percentage of sales revenue generated by its total business during the period of infringement. That percentage of total overheads has been apportioned to the infringing business and deducted from costs.
2. Abbott pointed to several unsatisfactory aspects of apportionment by sales revenue and argued that apportionment should have been done by reference to volume of goods. Abbott went on to argue that since Design & Display had not done that, and it was too late now to do so, there should be no apportionment of overheads at all. That was optimistic.
3. HH Judge Pelling QC considered alternative means of apportionment – a square footage basis and the sales revenue basis – in some detail in *Jack Wills Ltd v House of Fraser (Stores) Ltd* [2016] EWHC 626 (Ch) at [51]-[60]. Similar criticisms were made against the revenue basis. Judge Pelling came to the conclusion that the least unsatisfactory means of assessment was by sales revenue in that case. In another case the facts could be sufficiently different to take a different approach. But I respectfully agree with what Judge Pelling said and in my view a similar conclusion should be reached here. Apportionment should be done on a sales revenue basis.

Payments to directors

1. Design & Display is controlled by Mr Lloyd and his wife, Virginia. They are the only two directors and together they own 90% of the shares. Mr Chasmer said that all payments by the company to the directors, by way of directors’ emoluments, contributions to their pensions, payments to shareholders and similar expenses are, in fact, a means of distributing profits to directors. The extent of that profit is presumably decided by Mr and/or Mrs Lloyd. Mr Chasmer stated that it cannot be assumed that the money received by the directors in this way bore any proportion to the contribution they made to any particular part of the business, including the infringing business.
2. I have to say that without some more detailed information, I am dubious about treating these costs as just another overhead. Although Mr Lloyd responded to Mr Chasmer’s evidence on a number of points, he chose to say nothing about that.
3. Mr Aikens relied on what Judge Birss said in *Hollister Inc v Medik Ostomy Supplies Ltd* [2011 EWPCC 40; [2012] F.S.R. 17 at [93] to [97], where he refused to allow a deduction for directors’ emoluments, relying on *Le Plastrier v Amstrong-Holland* (1926) 26 S.R. (NSW) 585. Mr St Quintin took me to the judgment of the Australian High Court in *Dart v Decor*, which concluded that *Le Plastrier* was not persuasive authority for the proposition that directors’ emoluments should be disallowed. Moreover, in *Jack Wills* HHJ Pelling QC said that in principle directors’ emoluments are part of the general overheads of a trading limited liability company and an allowable deduction, at [66].
4. The company in question in *Jack Wills* was House of Fraser (Stores) Limited. There is a difference between a large public company, widely monitored by financial analysts, shareholders and others, and a company such as Design & Display where the emoluments are very much at the private whim and control of the directors.
5. I think that in the present case Design & Display was under an obligation to make a reasonable attempt to justify payments to the directors and proportionality between such payments and the contribution made by the directors to the infringing business, alongside the rest of the business. Absent such evidence I do not allow the apportionment of any payments to the directors by way of overheads. The exception is rent, to which I turn next.

Rent

1. Design & Display claim rent paid for its premises as an overhead. This is paid to Mr and Mrs Lloyd. Mr Chasmer suggested that the rent may not be charged at a market rate. That is possible but it is a matter that could only be resolved by quite extensive evidence from which I would have to decide what the market rate is. I will instead assume that the rent charged is fair and is a deductible overhead.

Delivery charges

1. It is usually possible to identify delivery charges as a directly attributable expense in relation to the infringing business. Abbott said that there was separate invoicing for delivery. However, late submissions from Design & Display stated that this was only the case in a handful of sales with special requirements. I am persuaded that it would be cumbersome and therefore disproportionately costly to treat delivery charges as a cost directly attributable to infringement. They must be treated as part of the general overheads.

**Conclusion**

1. The parties were agreed that they would calculate the profit, if any due to be paid by Design & Display to Abbott, once the principles had been decided. I invite the parties to do so.