

Neutral Citation Number: [2016] EWHC 116 (IPEC)

Case No: CC11P03805

IN THE HIGH COURT OF JUSTICE

**CHANCERY DIVISION**

**INTELLECTUAL PROPERTY ENTERPRISE COURT**

Royal Courts of Justice, Rolls Building

Fetter Lane, London, EC4A 1NL

Date: 28/01/2016

**Before** :

HIS HONOUR JUDGE HACON

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**Between :**

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| --- | --- | --- |
|  | **AP RACING LIMITED** | Claimant |
|  | **- and -** |  |
|  | **ALCON COMPONENTS LIMITED** | Defendant |

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**Hugo Cuddigan QC** (instructed by **Kempner & Partners LLP**) for the **Claimant**

**Douglas Campbell** (instructed by **Withers & Rogers LLP**) for the **Defendant**

Hearing dates: 15-16 December 2015

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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.

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**Judge Hacon :**

**Introduction**

1. This is an inquiry as to damages suffered by the claimant (“AP Racing”) due to infringement of UK Patent No. 2 451 690 (“the Patent”) by the defendant (“Alcon”). The Patent relates to calipers used in disc brakes, specifically those installed in racing cars.
2. In a judgment dated 5 February 2013 His Honour Judge Birss QC found that the Patent was invalid on the ground of added matter but also that if the patent had been valid it would have been infringed by four out of five models of Alcon’s calipers relied on in AP Racing’s Particulars of Infringement. AP Racing appealed the finding of invalidity. On 28 January 2014 the Court of Appeal allowed the appeal, ruling that the patent was valid. The Court ordered that at AP Racing’s election there would be an account of profit or an inquiry as to damages.
3. Mr Cuddigan QC appeared for AP Racing and Mr Campbell for Alcon.

**The law relating to the broad principles of an inquiry**

1. There was no dispute between the parties as to the law regarding the overall approach to assessing damages. I set out a summary of the relevant principles in *SDL Hair Limited v Next Row Limited* [2014] EWHC 2084 (IPEC) at [16]. The assessment of damages on the ‘user principle’ was discussed in *Henderson v All Around The World Recordings Limited* [2014] EWHC 3087 (IPEC).

**The heads of damage**

1. AP Racing claim three heads of damage:
2. Lost profits from sales of calipers that AP Racing would have made had Alcon not infringed.
3. Lost profits from lost ‘convoyed sales’, i.e. other goods that would have been sold by AP Racing had the infringing sales of calipers not been made.
4. To the extent that Alcon made sales of calipers which did not result in AP Racing losing any sales, damages equivalent to the royalty that Alcon would have paid under the Patent according to the user principle.
5. AP Racing also claims interest on all sums awarded.

**Lost profits from reduced caliper sales by AP Racing**

1. The calculation of profits lost from lost caliper sales divides into three stages, namely the assessment of:
2. the number of infringing calipers sold by Alcon which are relevant to AP Racing’s claim for damages;
3. the number of extra calipers that AP Racing would have sold had there been no infringement by reason of Alcon’s sales under (1); and
4. the average sales price for AP Racing’s calipers.
5. It made sense to calculate lost profits by reference to the average profit AP Racing made on the sale of calipers rather than delve into varying actual profit for different models of calipers. AP Racing’s Points of Claim pleaded that the average profit was 25% of sales price which was admitted by Alcon in its skeleton argument. AP Racing adduced evidence in support of its claim to a profit on sales which came from Aaron Govern, its Finance Manager. He recalculated the profits at 28%, qualifying his recalculation by saying that it was difficult to disentangle the fixed and variable costs of manufacture and that he had deducted both to arrive at 28%. He estimated the real figure at 32% with an error of + 0.5%. It is apparent that the calculation of average profits is not an exact science and I assume that the original calculation of 25% was also done with some care. I will use AP Racing’s pleaded figure of 25%.

*The number of sales by Alcon of relevant infringing calipers*

1. There was some common ground here. Alcon supplied 1179 infringing calipers manufactured in England to a United States supplier called Brake Parts Inc (‘BPI’) which in turn supplied teams that compete in races organised by the US National Association for Stock Car Auto Racing (‘NASCAR’). Appropriate deductions from the 1179 are:

242 calipers supplied before the application for the Patent was published (see ss.25(1), 60(1) and 69(1) of the Act);

70 calipers which remain unsold and are subject to an undertaking in writing dated 16 December 2015, provided by Alcon during the trial, to destroy them;

132 calipers which were supplied by Alcon as free-of-charge replacements for defective calipers sold earlier;

That leaves 735 calipers,

1. Alcon argued for further deductions, which were not agreed and to which I turn next.

Section 69

1. The first disputed deduction arose pursuant to section 69 of the Act which provides:

***69 Infringement of rights conferred by publication of application****.*

*(1) Where an application for a patent for an invention is published, then, subject to subsections (2) and (3) below, the applicant shall have, as from the publication and until the grant of the patent, the same right as he would have had, if the patent had been granted on the date of the publication of the application, to bring proceedings in the court or before the comptroller for damages in respect of any act which would have infringed the patent; and (subject to subsections (2) and (3) below) references in sections 60 to 62 and 66 to 68 above to a patent and the proprietor of a patent shall be respectively construed as including references to any such application and the applicant, and references to a patent being in force, being granted, being valid or existing shall be construed accordingly.*

*(2) The applicant shall be entitled to bring proceedings by virtue of this section in respect of any act only—*

*(a) after the patent has been granted; and*

*(b) if the act would, if the patent had been granted on the date of the publication of the application, have infringed not only the patent, but also the claims (as interpreted by the description and any drawings referred to in the description or claims) in the form in which they were contained in the application immediately before the preparations for its publication were completed by the Patent Office.*

*(3) Section 62(2) and (3) above shall not apply to an infringement of the rights conferred by this section, but in considering the amount of any damages for such an infringement, the court or the comptroller shall consider whether or not it would have been reasonable to expect, from a consideration of the application as published under section 16 above, that a patent would be granted conferring on the proprietor of the patent protection from an act of the same description as that found to infringe those rights, and if the court or the comptroller finds that it would not have been reasonable, it or he shall reduce the damages to such an amount as it or he thinks just.*

1. Alcon accepted that its infringing calipers fell within the claims of the application in the form taken immediately before publication. In other words, s.69(2) was satisfied. Alcon’s argument related to s.69(3) and was as follows:

Section s.69(3) speaks of a reasonable expectation, from a consideration of the patent application, that a patent would be granted covering the infringing acts. This is a reasonable expectation on the part of the skilled person who must be deemed to have read not only the patent application, but also anything else which he would reasonably consult.

The further materials which the skilled person would have reasonably consulted included (a) the search published by the United Kingdom Intellectual Property Office in relation to the application and (b) the search published by the European Patent Office in relation to the closest European equivalent to the application, that is to say European Patent Application, publication no. 2022999.

The claims of EP 2022999 were equivalent to claims 1, 3-6, 9, 11-13, 15-18, 27 and 29-31 of the UK application.

Between them, the UK and European searches cited prior art against all the UK claims except 7, 8, 10, 14 and 19-26.

It was therefore reasonable for the skilled person to expect that any patent granted pursuant to the UK application would contain, at the most, claims 7, 8, 10, 14 and 19-26.

The only models of Alcon’s calipers complained of which fell within claims 7, 8, 10, 14 and 19-26 were PC1106 and PC1111/12.

Therefore damages are only available in relation to those two models of caliper.

1. Assuming for a moment that Mr Campbell is right to say that when considering s.69(3) I must assume the skilled person takes into account the UK and European searches relied on, I am not at all convinced that merely because prior art has been cited against a claim of the patent application in issue, I must conclude that the skilled person would not reasonably expect a patent to be granted containing that claim.
2. In all events Alcon has an evidential difficulty in its way. The argument under s.69(3) was raised at the case management conference. It threatened to give rise to a costly and time-consuming investigation into the skilled person’s reasonable expectations in all the relevant circumstances, resulting in little likely benefit to Alcon. I therefore ruled that this issue did not satisfy the cost/benefit test which must be applied to all issues before the IPEC pursuant to CPR 63PD, 29.2(2). It follows that Alcon was not entitled to file any further material in support of its contention regarding s.69(3), including the two search reports relied on and EP 2022999. Since these were not before the court and were not available for comment by AP Racing, in my view Alcon’s argument falls at first hurdle and I reject it.

Joe Gibbs

1. AP Racing had an exclusive agreement with Essex Parts, Inc (‘Essex’) for the supply of its patented calipers, which it sold under the trade name ‘RadiCal’. In other words so far as the NASCAR teams in the US were concerned, the direct suppliers of the AP Racing’s RadiCal calipers and Alcon’s infringing calipers were Essex and BPI respectively.
2. 161 of the infringing calipers supplied by Alcon to BPI were sold on to a racing team called Joe Gibbs Racing, Inc (‘Joe Gibbs’). This was done under the terms of a sponsorship agreement dated 28 June 2008 (‘the Sponsorship Agreement’) between Joe Gibbs and a company in the same group as BPI, Affinia Group, Inc (which I will treat as being the same entity as BPI). The Sponsorship Agreement was entered into before Alcon’s infringing products were available on the market. It was for the promotion of BPI’s trade names and under its terms calipers were provided to Joe Gibbs either free or at discount rate. The contract also required Joe Gibbs to source all its calipers from BPI, subject to a proviso I will come to.
3. Alcon argued that had its infringing calipers not been available to Joe Gibbs the Sponsorship Agreement would have required Joe Gibbs to buy from BPI anyway, so in the counterfactual history the actual sale of 161 infringing calipers would be replaced by 161 sales by BPI of alternative non-infringing calipers. The 161 infringing sales to Joe Gibbs did not therefore give rise to any loss of sales by AP Racing.
4. AP Racing’s response directed my attention to a ‘get-out’ clause in the Sponsorship Agreement on which Joe Gibbs could rely. Clause 5(b)(ii)(B) included the following, in which ‘Sponsor’ is BPI and ‘JGR’ is Joe Gibbs:

“Sponsor shall use its best efforts to develop and supply JGR with the best available products together with all necessary technical advice, materials, and support services. JGR shall provide all reasonable support and feedback to help Sponsor improve the performance of its products and services. If JGR notifies Sponsor that any non-Sponsor product offers a material performance benefit over Sponsor’s products then JGR shall have the right to purchase and use such products; **provided** that JGR has first given Sponsor notice and reasonable opportunity to investigate such non-Sponsor product and its performance; **provided further** that JGR shall cease using such non-Sponsor product if and when Sponsor manufactures and delivers replacement Sponsor product which at least matches the performance of the non-Sponsor product(s)”

AP Racing argued that in the counterfactual world it would have been clear to Joe Gibbs that AP Racing’s RadiCal calipers offered a material performance benefit over any non-infringing calipers that BPI could offer. No amount of investigation by BPI could change that, so Joe Gibbs would have been permitted to buy, and would have bought, RadiCal calipers from Essex without breaching the Sponsorship Agreement – Alcon’s infringing calipers being unavailable.

1. At the relevant time there were suppliers other than AP Racing and Alcon, particularly two referred to as ‘Brembo’ and ‘PFC’. Both offered non-infringing calipers which were used by some of the successful racing teams. Alcon argued that if the Alcon infringing calipers had not been available, Joe Gibbs would have bought from Brembo or PFC.
2. The main evidence regarding the performance and cost of calipers on the market at the relevant time came from Alistair Fergusson who is the Managing Director of Alcon.
3. In the period leading up to the sponsorship agreement, in June 2007, Joe Gibbs tested Alcon calipers which pre-dated those held to infringe. The tests were successful. Mr Fergusson said that these Alcon models were found to perform as well as, if not better than, the state of the art in June 2007. Annex 1 to the Points of Defence (‘the Alcon Annex’) identified the calipers sold to the leading NASCAR teams from 2007 to 2014. In 2007 the Alcon products which Joe Gibbs had tested were competing with calipers sold by Brembo and PFC. It follows that the performance of Brembo and PFC’s products in 2007 was no better than that of the non-infringing Alcon calipers.
4. In August 2007 Joe Gibbs tested the AP Racing RadiCal calipers. Having done so, Joe Gibbs elected not to buy the Alcon models after all and instead, for a time, purchased the new RadiCal calipers. Mr Fergusson accepted that this pushed Alcon into using a ‘structural optimisation’ process in the creation of new designs of calipers, done in co-operation with Joe Gibbs. This had similarities with the design process used by AP Racing in the development of the RadiCal calipers. Alcon’s process was known by the acronym ‘OSCA’. OSCA gave rise to the creation of the infringing calipers. Mr Fergusson said that new designs were hugely advantageous and completely different to what had gone before. In other words these OSCA-developed calipers afforded a significant improvement in performance over the earlier Alcon calipers, particularly those tested by Joe Gibbs in June 2007. They were in due course sold to BPI which in turn supplied them to Joe Gibbs under the continuing Sponsorship Agreement.
5. Mr Fergusson’s evidence indicated that the advantages of the new Alcon calipers were due to the structural optimisation approach to their design. It also follows from his evidence that the performance of the infringing Alcon calipers must have been superior to that of the Brembo and PFC calipers sold in 2007.
6. The Alcon Annex showed that from 2009 there were four brands of calipers supplied to the leading NASCAR teams: (i) AP Racing’s RadiCal products, (ii) Alcon’s OSCA-developed products, (iii) Brembo’s products and (iv) PFC’s products. There was no evidence regarding the Brembo and PFC calipers in the period from 2009 to 2014 except that they did not infringe the Patent. There seemed to be an assumption, neither expressly established nor disputed, that the performance of the Brembo and PFC products did not significantly change after 2007. As I have said, the evidence showed that there was a significant jump in the performance of AP Racing’s and Alcon’s calipers due to the new design process. It was not suggested that there was any similar change in the method used to design the Brembo and PFC calipers or that they substantially improved in performance for any other reason. Mr Campbell argued that the very fact that some NASCAR teams bought the Brembo and PFC calipers from 2009 to 2014 indicated that their performance was on a par with that of the RadiCal and OSCA-developed calipers. That does not necessarily follow. Though this was an important point not directly addressed in the evidence, on balance I find that from 2009 onwards the performances of both AP Racing’s RadiCal calipers and Alcon’s infringing calipers were significantly better than those of the Brembo and PFC calipers.
7. There was an express dispute about price. Mr Cuddigan said that from 2009 onwards the Brembo and PFC non-infringing calipers were cheaper than both the RadiCal calipers and Alcon’s OSCA-developed calipers. Mr Campbell said there was no evidence about price, which is right, but given my finding with regard to performance, I think it must follow that the Brembo and PFC products were less expensive. The situation which makes sense is that there was a trade-off between price and performance and that NASCAR racing teams could reasonably elect to go for one or the other. The main attraction of the Brembo and PFC calipers was their lower cost.
8. Joe Gibbs’ rejection of the Alcon calipers tested in June 2007 and their initial purchase of RadiCal calipers after the tests of August 2007 indicates that in the choice between price and performance, Joe Gibbs preferred performance. Joe Gibbs were only going to buy from BPI under the terms of the Sponsorship Agreement if the calipers on offer sufficiently matched the performance of AP Racing’s RadiCal calipers. This meant buying Alcon’s infringing calipers. Consequently these 161 calipers are not to be deducted from the total infringing sales by Alcon which are relevant to AP Racing’s claim to damages.

Calipers supplied to Roush-Fenway and RPM

1. Alcon ran a similar argument in relation to calipers supplied to the Roush-Fenway and RPM racing teams, which also entered into sponsorship agreements with BPI. Mr Campbell and Mr Cuddigan both said that the question of whether these sales should be deducted from Alcon’s total sales stood or fell with the argument relating to Joe Gibbs. There are no deductions.

Exclusive supply agreements

1. Alcon’s next argument ran as follows. AP Racing’s sales of relevant calipers which it manufactured in the UK were exclusively through Essex; Alcon’s sales were exclusively through BPI. To the extent that Alcon made sales to BPI, these products were supplied to customers who had chosen between Essex and BPI and had decided to buy from BPI. Had they not bought the infringing products they would still have bought from BPI, so Essex, and therefore AP Racing, lost no sales because of Alcon’s acts of infringement in the UK.
2. This account of how the market for NASCAR racing team calipers works is not intuitive. It implies that racing teams first choose between BPI and Essex, and having made that choice they will buy from the chosen supplier come what may – irrespective of the performance characteristics and price of the products on offer. There was no evidence which gave sufficient, or I think any, support for this view of the market and I reject it.

Conclusion on the number of relevant sales by Alcon

1. It follows from the above that Alcon sold 735 infringing calipers which are relevant to AP Racing’s claim for damages

*The number of sales lost by AP Racing caused by Alcon’s 735 infringing sales*

1. AP Racing argues that there would have been a one-to-one ratio in lost sales, i.e. for every infringing sale made by Alcon, AP Racing lost a sale.
2. The relevant ratio in these circumstances is generally estimated by reference to the market share enjoyed by the claimant. So, for instance, if the claimant has 50% market share, the working hypothesis is that absent the infringing sales, 50% of the customers for those products would have bought from the claimant, a ratio of two-to-one. In deciding what the correct figure is, it is important to identify the relevant product market.
3. AP Racing argued that the relevant market consisted of calipers which had been designed using structural optimisation and that at the relevant time this was a duopoly of AP Racing’s RadiCal products and the OSCA-developed products marketed by Alcon. One infringing sale by Alcon therefore gave rise to one lost sale by AP Racing.
4. Alcon argued that this was over-simplistic. At the relevant time some of the top teams used the Brembo and PFC calipers. These enjoyed 30% of the market, so AP Racing would, in the counterfactual world, have picked up 70% of the sales made possible by the absence of Alcon’s infringing products.
5. The starting point here is to consider the perspective in the real world of the racing teams which bought Alcon’s infringing calipers. They had decided that they wanted calipers providing superior performance due to their structural optimisation design process and were willing to pay a higher price than was charged for Brembo and PFC calipers. Therefore so far as those teams were concerned, the relevant product market consisted of calipers designed in that way. Had the teams not been able to buy OSCA-developed calipers from Alcon, the likelihood is that in every case they would have turned to AP Racing, or rather Essex, and the RadiCal calipers.

*Conclusion*

1. AP Racing lost 735 sales of calipers because of Alcon’s infringement of the Patent. AP Racing accepted Mr Fergusson’s figure of £1186 for the average sales price of its calipers, so there was a loss of £871,710 in sales income. Of that 25% was profit, so the loss under this head was £217,928.

**Profits lost from reduced convoyed sales**

*The law*

1. I addressed the law in *Alfrank Designs Ltd v Exclusive (UK) Ltd* [2015] EWHC 1372 (IPEC). In that action it was conceded by the defendant (‘Exclusive’) that it had infringed unregistered Community and UK design rights owned by the claimant (‘Alfrank’) relating to two designs of dining room table. Exclusive accepted that statistically, each sale of a dining room table coincided with the sale to the same customer of a given number of items (or a proportion of a single item) of other dining room furniture. The question was whether these further sales could be treated as convoyed sales. I said this:

“[31] … The point made by Exclusive was that it is not enough to allege or even prove that sales of so many chairs and so on were made when a Canberra or Strasbourg table was sold. Alfrank had to satisfy the burdens of causation and remoteness generally (see *Abbott*, [[2014] EWHC 2924 (IPEC)], at [23]-[25]).

[32] I agree. By way of an example, even if a supermarket claimant were to prove beyond doubt that for every packet of its own-brand cornflakes sold, statistically 0.23 tins of beans are sold to the same customer, together with 0.11 large wholemeal sliced loaves and so on, sales of the latter would not on that evidence have been caused by the sale of the cornflakes. In my view, to make good any claim to damages for loss of sales of convoyed goods, the claimant must prove that, assessed objectively, there was a causative link in the mind of the purchaser between his or her purchase of the infringing product and their purchase of one or more other specific products. Only then will the sale of the infringing product have caused the sale of those other products (within the legal sense of causation) – as opposed to the latter sales being merely statistically linked as a matter of probability. If causation is proved, subject to unusual facts being raised by the defendant, losses related to the latter sales will be expected to satisfy the requirements of the law on remoteness generally.”

1. In order to make good its claim for a loss due to reduced convoyed sales, AP Racing must show that there was a causative link in the mind of the NASCAR teams between the purchase of calipers and the purchase of the goods said to be convoyed goods.

*This case*

1. Mr Fergusson calculated that for every caliper sold by AP Racing, it also sold £410 worth of goods exclusively associated with the sale of calipers and a further £1565 worth of goods associated with sales of calipers and/or other products. Alcon accepted that the sale of the exclusively associated goods were causatively linked with sales of calipers in the *Alfrank* sense and were therefore convoyed sales. It was agreed that the profit of all convoyed goods was 25%. Therefore AP Racing lost 735 x (£410 x 25%) profits on sales of exclusively associated convoyed goods, i.e. £75,338.
2. Mr Fergusson’s evidence in relation to the sale of goods non-exclusively associated with the sale of calipers was that the market evidence indicated that such associated sales happened on average 70% of the time. It was accepted by Alcon that there was a causative link for that 70%. In cross-examination it was put to Mr Fergusson that the correct figure was 92%. Mr Fergusson’s view was that the 92% figure was calculated by reference to a lot less than 50% of the market and was therefore not representative. I will accept Mr Fergusson’s figure of 70% and take the profit margin for convoyed goods to be 25%.
3. Losses in relation to non-exclusively associated goods are therefore 735 x (£1565 x 70% x 25%) = £201,298.

**Damages according to the user principle**

1. In the hypothetical willing licensor/willing licensee negotiations for a reasonable royalty rate, from which damages due under the user principle are to be assessed, I have no reason to doubt that the parties would have taken the usual course of agreeing a figure in the form of a percentage of Alcon’s sales price on each infringing caliper supplied.
2. AP Racing is already compensated in relation to the 735 calipers discussed above. Of the remaining 444, no damages are due on those which were sold before the date of publication of the application for the Patent. Nothing is due on the 70 which have been, or will be destroyed. I have no reason to think that the parties would have hypothetically a royalty charge on the 132 calipers supplied by Alcon free of charge to replace defective calipers. There are therefore no damages under the user principle.

**Interest**

1. I was referred by Mr Cuddigan to the judgment of Ramsay J in *Persimmon Homes (South Coast) Limited v Hall Aggregates (South Coast) Limited* [2012] EWHC 2429 (TCC); [2012] C.I.L.L. 3265. AP Racing claim interest at the rate of 2% above base rate for the appropriate period before judgment.
2. I take the following from *Persimmon Homes*:
3. The starting point is that the pre-judgment rate of interest should be the rate at which claimants like the particular claimant in the action could, in general, borrow money, taking into account the general attributes of the class of claimants to which the claimant belongs, see *Tate and Lyle Food and Distribution Limited v Greater London Council* [1982] 1 WLR 149, at 154-5.
4. Although historically there was a presumption that the appropriate rate was 1% over base rate, which could be displaced in favour of a higher rate in an appropriate case, there is no longer any such presumption. See in particular para. J14.1 of the Admiralty and Commercial Courts Guide.
5. Where appropriate the court may reach a view as to the appropriate rate of interest, even in the absence of evidence, see *Lindsay v O’Loughnane* [2010] EWHC 529 (QB), at [143].
6. Generally speaking public companies of some size and prestige will be required to pay less to borrow money than smaller and less prestigious concerns, see *Tate and Lyle* at p.154.
7. Bearing in mind those principles I will award interest before judgment at a rate of 2% over base rate.

**Conclusion**

1. The damages due to AP Racing are £217,928 + £75,338 + £201,298, a total of £494,564. I will hear submissions on interest taking into account to my finding regarding the appropriate rate before judgment.