

ENGLAND AND WALES / JUDGMENT

OOO Abbott & Anor v Design & Display Ltd & Anor

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HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display Neutral Citation Number: [2014] EWHC 2924 (IPEC) IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION INTELLECTUAL PROPERTY ENTERPRISE COURT Case No: CC12P01174 Royal Courts of Justice, Rolls Building Fetter Lane, London, EC4A 1NL Date: 04/09/2014 Before : HIS HONOUR JUDGE HACON

- ----- Between :

(1) OOO ABBOTT (a company incorporated in the Russian Federation)

(2) GODFREY VICTOR CHASMER Claimants

- and -

(1) DESIGN & DISPLAY LIMITED

(2) EUREKA DISPLAY LIMITED Defendants

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- ----- Chris Aikens (instructed by Gordons Partnership LLP) for the Claimants Thomas St Quintin (instructed by Appleyard Lees) for the First Defendant Hearing date: 24th July 2014

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Judgment

Judge Hacon : 1. This an account of profits following the judgment of Birss J dated 30 May 2013,

[2013] EWPC 27, in which he found that the Claimants' European Patent (UK) No. 1 816 931 ("the Patent") was valid and had been infringed by the defendants. 2. Birss J described the invention claimed in the Patent in the following way: "[4] The case concerns display panels used in shops. Shopfitters often use a wooden wall called a slatwall as a panel on which to construct displays. Today the slatwall is made of MDF and has horizontal slots. Back plates or other shelf fixings can be fitted into the slots in order to secure display accessories such as shelves, brackets and hangers. The merchandise is displayed from the HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display display accessories. The

fittings are inserted into the jaws of the mouth of the slot and hooked into the top of an internal chamber of the slot lying behind its mouth. The slots are made by a computer controlled router moving across the [5] width of the panel. A router makes a T shaped slot and leaves visible machined surfaces within the slot having machined away the decorative veneer that generally covers the face of the MDF. Also the edges of the veneer around the mouth of the slot are susceptible to damage as display accessories are hooked in and removed. For these reasons it became standard practice to provide inserts for [6] slots, as protection against damage and to hide the machined surfaces. To an extent the inserts also strengthen the panel. The accessories are then fitted into the inserts rather than being fitted directly into the bare slots. [7] The inserts are made by extrusion. By 2004 the standard inserts used were of two kinds: "slide-in" or "snap-in". As the name suggests slide-in inserts were slid into place from the edge of the slat wall. They were made of aluminium. They could be T-shaped, corresponding to the T shaped cross- section of the slot or else they could be L-shaped, using only the top arm of the slot. A problem with slide-in inserts was that if the edge of the slatwall was not accessible, for example at a corner, there is no room to slide the insert into place. Snap-in inserts solve this problem by being inserted from the front with a spring action. Because they needed to be compressible, they were made of PVC instead of aluminium. The invention in this case is a snap-in insert made from a resilient [8] metal like aluminium." 3. Following judgment Birss J made an order for Island Records disclosure. The Claimants (whom I shall refer to collectively as "Abbott") elected for an account. On 27 February 2014 I gave directions. The list of issues which the parties had identified for resolution at this trial of the account, scheduled to the Order of that date, were as follows:

- (1) What was the length in metres of clip in aluminium extrusions which were found to infringed [the Patent] that was sold by each Defendant in the relevant period and at what sales price?
- (2) Are the Claimants entitled to claim the profits which accrued to either Defendant as a result of the sale of slatted panel sold together with the clip in aluminium extrusions?
- (3) If issue 2 is determined such that the Claimants are entitled to claim profits resulting from the sale of slatted panel sold together with the clip in aluminium extrusions, what were the quantities of such sales by each Defendant in the relevant period and at what sales price?
- (4) What were the gross profits made by the Defendants from the sales determined under issues 1 and 3? HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display
- (5) What are the allowable costs that the Defendants are entitled to deduct from the profits determined under issue 4?
- (6) From what date was the First Defendant aware, or had reasonable grounds for supposing, that the Patent existed for the purposes of section 62(1) of the Patents Act 1977? 4. Things have moved on since then – in particular Abbott and the Second Defendant settled their differences so this account goes ahead against the First Defendant ("Design & Display").

However it will still be convenient to take those issues in sequence, amending them as necessary to deal with the points left in dispute between Abbott and the First Defendant.

How the panels and inserts are made and sold 5. 6. 7. 8. Design & Display manufactures and sells retail equipment, including display panels for use in shops. The evidence of Clive Lloyd, managing director of Design & Display, was that its primary business was as a joiner for shopfitters, making bespoke items of shop furniture, which Mr Lloyd 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 be located into the inserts. 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. 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. Mr Aikens, who appeared for Abbott, handed up a table which sets out the quantity of inserts and panels sold by Design & Display, costs, gross profits and expenses with Design & Display says may be deducted from the gross costs. I understand these figures to be agreed subject to the points in dispute. It is therefore enough for me to decide the outstanding issues and I can leave the parties to calculate the relevant sums due.

Issue 1: Length of aluminium clip extrusions sold 9. The parties are agreed as to the length and price of unincorporated inserts sold. The remaining point under this head concerns only incorporated inserts. Design & Display was unable to provide equivalent figures for incorporated inserts because invoices for equipment supplied were not always broken down to identify the HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display 10. 11. 12. 13. components, specifically the inserts, and the inserts specified were not always those actually supplied. Design & Display's approach, therefore, was to calculate the difference between the lengths of extrusions bought and the lengths sold as unincorporated inserts. No stock was left so the difference was taken to be the starting point for lengths of extrusions sold as incorporated inserts. From this Design & Display proposed two deductions. The first was 10% because of scrap created when cutting the inserts to fit sales displays. The second, also 10%, was to reflect the discount which Design & Display says it applies to the price of inserts incorporated into displays. Abbott's first objection was that these were arbitrary figures presented by Mr Lloyd with no firm basis for them. Secondly, in relation to the second discount, Mr Lloyd's evidence was that the joinery side of the business was the profitable side and therefore, Abbott argued, it was not appropriate to assume the insert part of this business was run less profitably than the business in unincorporated inserts. It was not disputed that there would be some sort of

wastage when cutting the aluminium extrusions to fit panels. Mr Lloyd's estimate was 10% and I accept that evidence. Regarding the second discount on the other hand, his evidence was that it was 'probable' that some form of discounting would have arisen in relation to the sales of incorporated inserts (Lloyd I, ¶10). No clear reason was given. This seems to me to be an insufficient basis for assuming that Design & Display's profits were lower for sales of incorporated inserts when compared to equivalent profits from sales of unincorporated inserts. 14. In relation to profits from sales of incorporated inserts I therefore allow the first 10% deduction but not the second. Issue 2 : Whether Abbott are entitled to profits from slatted panels The law 15. 16. In an inquiry as to damages for infringement of an intellectual property right the defendant is of course not required to compensate the claimant for damage which was not caused by the infringement. Likewise in an account of profits, the defendant is not accountable for profits which were not caused by the infringement – such as the profits generated by a business of the defendant causally independent of the infringing business. This was discussed by Laddie J in *Celanese International Corp. v BP Chemicals Limited* [1999] RPC 203. The judgment was found later to be wrong in relation to the costs that a defendant may deduct from gross profit – see *Hollister Inc v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419; [2013] FSR 24, but not in respect of the general principles underlying an account of profits. Laddie J said this in relation to those principles: “[37] Although an account may give rise to a very different figure to that on an inquiry as to damages, they both proceed on a common principle of legal causation. On an inquiry the court is trying to determine what damage has been caused, in a legal sense, by the defendant's wrongful acts. It has to decide whether the breach was the cause of the loss or merely the occasion of it (see for example *Galoo v. Bright Grahame Murray* [1994] 1 W. L. R. 1360). In an account the court is trying to determine what profits have been caused, in a legal sense, by those acts. This was stated expressly by the Canadian Federal Court of Appeal in *Imperial Oil v. Lubrizol* [1996] 71 C. P. R. (3d) 26 at 30: ‘Just as in a reference on a claim for damages issues of fact relating to causality and remoteness may properly be explored, so may they be likewise on an accounting of profits It may be possible for Imperial to show that some part of the profits made on the infringing sales are not profits ‘arising from’ the infringement in that they are not caused by but made on the occasion of such infringement.’

- [38] One consequence of this is that where the defendant carries on multiple businesses or sells different products and only one infringes, he only has to compensate the plaintiff for the damage inflicted by the infringements or he only has to account for the profits made by the infringements. For example in this case no question of BP having to account in respect of acetic acid from the DF plants arises. Similarly, save in respect of the period of the stay early this year where special circumstances are said to exist, it is not suggested that BP must account for the acetic anhydride made on the A5 plant. As Lord Watson said in *United Horse Shoe and Nail v. Stewart* (1888) 5 R. P. C. 260, it would be unreasonable to give the patentee profits which were not earned by use of his invention.

- [39] A further consequence of these common principles is that it should be no answer to an account that the defendant could have made the same profits by following an alternative, non-infringing course. The question to be answered is ‘what profits were in fact made by the defendant by the wrongful activity?’ It should not matter that similar profits could have been made in another, non-infringing way.” ... [42] If this is right, it cuts both ways. Just as the defendant cannot reduce the profits by saying that he could have made all or most of them if he had taken a non-infringing course, so also the plaintiff must take the defendant as he finds him. He cannot increase the profits by saying that the defendant could and should have generated higher profits: see *Dart Industries v. Decor Corp. Pty Ltd* [1994] F. S. R. 567 at 590.” 17. As Laddie J indicated, in an inquiry or account both claimant and defendant have to live with the way in which the defendant conducted its business in the relevant period. It is not open to the claimant to complain that the defendant could and should have made more profit than it did. Likewise the defendant may not rely on alternative ways in which it might have traded – perhaps making a lot more sense in retrospect and which would have generated less profits attributable to the acts of infringement. These are two sides of the same coin. 18. Also, in an account the court is trying to determine what profits have been caused, in a legal sense (to use Laddie J’s term), by the infringing acts. It is thus important to HIS HONOUR JUDGE HAGON Approved Judgment *Abbott v Design & Display* decide which acts of the defendant are relevant, in particular which products sold by the defendant fall within the scope of the account. The relevance of the claims of the patent to the scope of the inquiry 19. Section 61(1)(d) of the Patents Act 1977 gives a successful patentee the right to claim an account of profits derived by the defendant from the infringement of the patent. But those profits are not assessed by reference to what the defendant did in relation to the ‘invention’, i.e. that specified in a claim of the patent (see s.125(1)). In *Celanese* Laddie J gave a graphic illustration of why that is: In deciding whether the defendant has to account for all or only a part “[51] of the profits made on a particular venture, I respectfully agree with the view expressed by the Canadian Federal Court of Appeal in *Imperial Oil v. Lubrizol* that this is a matter of fact and that form must not be allowed to triumph over substance. As I have mentioned above, HC commenced the inquiry arguing that low-iodide acetic acid was a product made directly from the patented process and therefore was an infringement in its own right pursuant to s.60(1)
- (c) of the Act. Based on this it said that because the whole product was an infringement, therefore all the profits made from it were accountable. Arguments as to whether the product is acetic acid or purified acetic acid hide the real purpose of the account which is to identify what profit has been made by BP by using the patented purification method. The point can be illustrated by the tin whistle example much beloved of patent practitioners. Someone invents a new form of tin whistle. With the aid of his patent agent he obtains a patent. Regrettably, but as is now common, the patent ends with claims of ever greater particularity and narrowness. (Subsidiary claims limited to the patented article made out of plastics material of a particular colour are not unknown.) 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. No doubt none of the subsidiary claims are independently valid over Claim 1 but they are probably not per se invalid. Nor is there any doubt that an injunction or an order for delivery up would be directed to the tin whistle alone rather than the whole battleship. Similarly on an account substance not form counts. What the defendant has to account for is the profit made by exploitation of the invention, i.e. the whistle, not profits made by exploitation of material or activities which are not attributable to the plaintiff's ingenuity, i.e. the rest of the battleship.”

20. Thus, the claims of the patent held to have been infringed provide no necessary guide as to the scope of the inquiry or account. On the other hand it seems to me that the inventive concept of the patent will be a guide. I think here Laddie J's example of an improved tin whistle can be pursued a little further. The inventive concept could be, say, a new shape for part of the interior of the whistle which alters the flow pattern to make the sound louder. It might be embodied in quite a modest part of the whistle yet Laddie J assumed that the inquiry or account would at the least extend to damages or profits relating to the entire whistle. I would agree. So although the inventive concept is relevant to the scope of an inquiry or account, the scope will commonly not be limited to products precisely embodying it. HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display

21. 22. 23. This is illustrated by *Meters Limited v Metropolitan Gas Meters Limited* (1910) 27 RPC 721 (Eve J, upheld in the Court of Appeal (1911) 28 RPC 157). The plaintiffs had established infringement of two patents relating to improvements in gas meters. The Master had assessed damages in the inquiry in relation to the plaintiffs' loss of profits in relation to entire meters. On appeal to Eve J the defendants argued among other things that this was wrong because the part of the meters embodying the invention was trivial in relation to the whole – the profit on them represented about 1/44th of the whole profit on the meter. Eve J rejected this and also a comparison the defendants had drawn with an earlier case relating to accessories for a car. He ruled that damages should be assessed in relation to profits lost from sales of entire meters and said this at p.730: “There the accessories were of a nature capable of being applied to any car, and were certainly capable of being and were in fact dealt with as separate. Here nothing of that sort takes place and 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;”

Returning to Laddie J's example, the scope of an inquiry or account would no doubt extend to profits lost or made in respect of entire tin whistles. But what about the funnel? I think this is a further aspect of the same issue although it arises in the context of what are commonly called ‘conveyed’ goods or services. In *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443 the Court of Appeal was concerned with an inquiry as to damages for infringement of patents relating to machines for the automatic cutting of fabric. At first instance Jacob J had awarded damages not just for a loss of profits from lost sales of machines within the scope of the patents, but also non-infringing machines which the claimant would have been

expected to sell plus loss of profits in respect of spare parts and servicing of the infringing machines. Staughton LJ (with whom Hobhouse and Hutchison LJ agreed on this issue of scope of recovery) considered first the words of the statute and drew a first impression, at p.453: "... the Patents Act is aimed at protecting patentees from commercial loss resulting from the wrongful infringement of their rights. That is only a slight gloss upon the wording of the statute itself. In my judgment, again as a matter of first impression, it does not distinguish between profit on the sale of patented articles and profit on the sale of conveyed goods. So I must look to see whether any such distinction emerges from the case law." 24. Having considered the case law in some depth, he said this at pp.455-6: "Viewing the cases as a whole, I cannot find any rule of law which limits the damages for infringement in a patent case in such a way as to exclude the loss claimed by the patentees in the present case. In *General Tire & Rubber Co. v. Firestone Tyre & Rubber Co. Ltd.* [1976] R. P. C. 197 at page 214 Lord HIS HONOUR JUDGE HAGON Approved Judgment *Abbott v Design & Display* Wilberforce approved a passage in the judgment of Fletcher Moulton L. J. in the *Meters* case which concluded: 'But I am not going to say a word which will tie down future judges and prevent them from exercising their judgment, as best they can in all the circumstances of the case, so as to arrive at that which the plaintiff has lost by reasons of the defendant doing certain acts wrongfully instead of either abstaining from doing them, or getting permission to do them rightfully.' Beyond that the assessment of damages for infringement of a patent is in my judgment a question of fact. 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 the other items which the customers would buy in the supermarket but no longer bought. The limit there would be one of causation, or remoteness, or both. But the present appeal, in so far as it seeks to restrict the scope of recovery, should be dismissed." The Court of Appeal upheld Jacob J's view that the scope of the inquiry should extend to non-infringing machines, spare parts and servicing. 25. Causation and remoteness will always limit the scope of an inquiry or account. This will apply whether the question is how much of a single product falls within that scope (such a tin whistle or gas meter) or whether conveyed goods or services should be included. These factors should not be considered to the exclusion of everything else – proportionality among other matters is relevant (see art.3 Directive 2004/48/EC on the enforcement of intellectual property rights), but here I will consider primarily causation and remoteness. In relation to the former Staughton LJ said this (at p.452): "It is not enough that the loss would not have occurred but for the tort; the tort must (for present purposes at any rate) be, as a matter of common sense, a cause of the loss." (original italics) In *Celanese Laddie* J focussed only on causation but I doubt that he was intending to differ from what Staughton LJ had said. Often, whether using remoteness or causation as the test for limiting the scope of an inquiry or account, one would arrive at the same answer. However, both must be considered. This case 26. 27. 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. I think it is sufficient for me to focus on claim 1. The inventive concept can be taken from the characterising portion of the claim. The inventive concept is largely embodied in the insert. Mr St Quintin, who appeared for Design & Display, argued that Birss J had found that this was the full extent of the embodiment of the inventive concept. I do not accept that. Birss J had no reason to consider or define precisely the HIS HONOUR JUDGE HAGON Approved Judgment Abbott v Design & Display 28. 29. 30. 31. inventive concept. Although he identified the ‘invention’ in paragraph of his judgment (paragraph 8) as “a snap-in insert made from a resilient metal like aluminium”, his use of the term ‘invention’ indicates that he was using fairly loose language to indicate that the inventive concept is largely concerned with the insert – which it is. Largely, but not exclusively. I take the characterising portion of claim 1 to be the whole of the claim following ‘characterised in that’ and it illustrates that the inventive concept is also in part concerned with how the insert interacts with the panel. It is therefore partly embodied in the slot of the panel with which the insert engages, in particular the mouth of the slot and the corner regions on each side of the mouth referred to in claim 1. It was argued by Design & Display that notwithstanding how the characterising portion of claim 1 is drafted, in fact the interaction of the insert with the panel was not part of the invention. I do not agree. 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. The questions which I have to consider in relation to the scope of the account are (a) whether the sale by Design & Display of articles embodying the inventive concept caused the profits which the company made on the panels as a whole (‘caused’ in the sense identified by Staughton LJ in Gerber) and (b) whether it was foreseeable that such profits would be made as a consequence of the sale of the articles embodying the inventive concept. I think that the answer to both questions is yes. I will consider first just the sales of the infringing inserts. It is likely that in at least some cases the customer either specified or was recommended the infringing inserts because of the advantages they offered for particular displays and for use of the panel in which they were incorporated. Mr Lloyd in cross-examination accepted that there were such advantages. I have no real doubt that in those circumstances the sale of infringing inserts drove the sale of the compatible panels in which they were incorporated. However, I will assume that some sales of panels with incorporated infringing inserts went ahead with the customer indifferent to the type of inserts used. I will also assume that while the panels must have been machined to be compatible with the infringing inserts, they may also have been compatible with non-infringing inserts (although it was the evidence of Mr Chasmer, the Second Claimant, that there is little if any such cross-compatibility in the industry). In those circumstances the sales of the infringing inserts were not in the same way the driving force behind the sales of panels but in the end I think it makes no difference. The customer will have specified panels with incorporated inserts (and also possibly that the panels were incorporated into a display, it doesn’t matter). Design & Display

was thus either going to make a sale of inserts and panels both, or no sale at all. The sales necessarily went hand in hand. Design & Display chose to sell infringing inserts. Because the sales went together, the sale of the inserts caused (in the relevant sense) the sale of the panels in which they were incorporated. It was also foreseeable that the sale of the panels would be a consequence of the sale of the inserts. HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display 32. 33. It goes further. As I have said, part of the inventive concept was embodied in the shape of a section of the panel. The fact that it was a modest section makes no difference. The sale of that section of the panel both caused the sale of the panel as whole and the latter sale was a foreseeable consequence of the former. The argument raised by Design & Display in this regard was based on Mr Lloyd's evidence that the cessation of its sales of the infringing incorporated inserts had made no difference to sales of the panels, and Mr Lloyd's assertion that consequently if Design & Display had not sold infringing inserts this would have made no difference at all to its sales of panels. I find this surprising because Mr Lloyd had conceded that at least in some circumstances the infringing inserts had advantages over alternatives, which implies the likelihood for the potential of some lost sales if the infringing inserts had been unavailable. But I leave that to one side. The main point is that this argument amounts to an assertion that Design & Display could have traded just as profitably without infringing. No doubt that is true, but for the reasons discussed above it is irrelevant. Design & Display did infringe and in my view the scope of the profit derived from such infringement extends to the profit made from sales of panels in which the infringing inserts were incorporated. Issue 3 : Quantity of unincorporated panels sold 34. 35. The parties were agreed as to the price of the panels sold. They were also agreed as to how to calculate the quantity of panel sold in which infringing inserts were incorporated. This can be done by reference to the length of incorporated aluminium extrusion sold. The only remaining issue is the quantity of panels sold with accompanying, but unincorporated inserts. It was common ground that some inserts were sold without a sale of any panel, either so as to replace damaged inserts in the customer's existing panel or because the customers preferred to buy their own panel. Mr Lloyd estimated that 10% of unincorporated inserts were sold without panels. Mr Chasmer's evidence from his experience in the industry was that the correct figure was 2.5%. I must assume that Mr Lloyd is in the best position to assess the correct figure for his own company's business and therefore I accept his figure of 10%. Issue 4 : Gross profits 36. The fourth issue in the end came to a dispute about terminology and whether gross profits should exclude a deduction for anything other than the cost of the purchase of materials used to make the infringing products. It makes no practical difference but in this judgment I will take 'gross profits' to mean profits with no deduction other than the cost of materials. Issue 5 : Costs which may be deducted from the gross profits The law 37. The law was set out by the Court of Appeal in Hollister (cited above). Both parties referred to the useful summary of the relevant section of that judgment given by HHJ Pelling in Woolley v UP Global Sourcing [2014] EWHC 493: HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display "The Central Costs Issue [34] In my judgment the applicable principles are those identified by the Court of Appeal in Hollister inc. v. Medik Ostomy Supplies Ltd

(ante) at [74] to [87]. In summary: i) ii) iii) iv) An infringer is entitled to deduct any direct costs associated with the infringement and also any overheads to the extent that they have been increased by the infringement – see [74]; It is not permissible for a defendant to allocate a proportion of its general overheads to an infringing activity – see [85]; The evidential burden rests on the infringer to show that the relevant overheads are properly attributable to the infringing activity – see [85]; and It followed that in any case where a defendant seeks to deduct an element of general overheads it will be for it to prove its business was running to capacity or that but for the infringement it would have sold other products or that its overheads would have been lower if it had not infringed – see [87].” 38. I agree, although to adapt the principles to the present facts I would put them in a slightly different way: (1) (2) (3) Costs 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 businesses. The defendant is entitled to deduct the former costs from gross profits. A proportion of the general overheads may only be deducted from gross profits in two circumstances: (a) (b) if an overhead was increased by the acts of infringement (i.e. the increase would not have occurred but for the acts of infringement), that increase may be deducted; if the defendant was running to maximum capacity such that the infringing business displaced an alternative business which otherwise would have been conducted, the apportioned overheads incurred by the infringing business (and which would have been incurred by the displaced business) may be deducted. (4) The evidential burden is on the defendant to establish any of the above. 39. The logic of the principle which I have numbered (3)(b) (adopted from the judgment of the High Court of Australia in *Dart Industries Inc v Decor Corp Pty Ltd* [1994] FSR 567) is that while a defendant may not deduct the profit that it would have made from the displaced business (i.e. the loss of profit from an opportunity forgone, called the ‘opportunity cost’) it would be unfair to deprive the defendant of both the HIS HONOUR JUDGE HACON Approved Judgment *Abbott v Design & Display* opportunity cost and the apportioned overheads which would have sustained the displaced business (and which sustained the infringing business). 40. The corollary of (3) as a whole is that if the overheads would have been incurred anyway in the absence of the infringing business and also no opportunity cost was incurred by the defendant, no overheads may be deducted from its gross profits. This case 41. 42. 43. Design & Display’s approach to the deductions from gross profits was to draw up a table of every cost incurred by its entire business and to apportion each such cost to the business in infringing inserts by reference to the proportion of revenue generated by the infringing business in relation to its total business. The first point to make is that Design & Display did not attempt to show that any of these costs is attributable solely to the infringing business. They are all presented as proportions of general overheads. Therefore in order for any of these to be deductible from gross profits it is necessary for Design & Display to establish that either (a) the sum claimed represents an increase in the relevant overhead which would not have occurred but for the acts of infringement or (b) its business was running to maximum capacity such that the infringing business, which incurred that proportion of the overhead, displaced an alternative business. The sums in the table are divided into ‘Defendant’s Costs of Sales’ and

‘Defendant’s Administrative Expenses’. I am not clear how the distinction was drawn. For instance, both include ‘wages and salaries’ and ‘directors’ remuneration’ although Mr St Quintin explained that there is no overlap because the employees and directors concerned in each case are different. I think the division makes no difference. 44. Design & Display’s argument boiled down to this: (1) (2) (3) The switch from sales of infringing inserts to sales of non-infringing inserts made no difference to sales figures. Design & Display would have sold just as many products if it had not infringed. Therefore the overheads claimed which supported the infringing business would have supported a non-infringing business if Design & Display had chosen not to infringe. Because it would have received no less custom had it sold non-infringing inserts, its business was working to capacity in the sense that there was no more business to be had by selling infringing inserts. Mr Lloyd gave evidence that it did not have staff or machines standing idle ready to exploit other opportunities. If an exceptional opportunity arose (as happened because of a contract with Vodafone in 2012) Design & Display took on contract workers, hired equipment and a temporary building to accommodate the extra work. The employee headcount varied from year to year. This showed that the company was working to maximum capacity. 45. None of these arguments suggested that any of the deductions claimed in the table constituted an increase in the relevant overhead which occurred solely because of the infringing business, i.e. that the increase would not have occurred but for the conduct HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display 46. 47. 48. 49. of that business. Therefore I do not allow deductions on that ground based on Design & Display’s evidence. Design & Display’s arguments instead focussed on its business operating to capacity. Taking the first two arguments above to begin with, I think they mistake what the Court of Appeal had in mind by working to maximum capacity such that the defendant suffers an opportunity cost. I accept Mr Lloyd’s evidence that when Design & Display stopped selling infringing inserts, its sales remained constant. This does not show that the company was working to maximum capacity. At most it might show that the market did not attach much importance or practical value to the infringing inserts, but not necessarily even that – it is also consistent with Design & Display focussing its selling strategy on a different sector of the market. The third argument does not suggest that Design & Display suffered an opportunity cost. On the contrary, if a sales opportunity arose the company was able to adapt to meet that opportunity alongside its existing sales. Apparently no business was foregone. In my view Design & Display has not satisfied the evidential burden to show that it is entitled to make any of the deductions from gross profits claimed in its table. That said, Mr Chasmer for Abbott identified a cost which would be directly and solely attributable to Design & Display’s infringing business. He pointed to the labour costs incurred in cutting the slots in MDF panels to accommodate the infringing inserts. Using his experience in the industry, Mr Chasmer estimated that such costs would have been £7.50 per hour and that it would take a worker about 2 minutes to cut the slots in each panel. I believe it is common ground that this amounts to a total cost of £7,018 for all panels sold by Design & Display as part of its infringing business. I allow this as a sum to be deducted from Design & Displays gross profits from that business. Issue 6 : Whether, and if so from which date, s.62(1) may be relied

on 50. Section 62(1) of the Patents Act 1977 states: “In proceedings for infringement of a patent damages shall not be awarded, and no order shall be made for an account of profits, against a defendant or defender who proves that at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed; and a person shall not be taken to have been so aware or to have had reasonable grounds for so supposing by reason only of the application to a product of the word “patent” or “patented”, or any word or words expressing or implying that a patent has been obtained for the product, unless the number of the patent accompanied the word or words in question.” 51. 52. Design & Display did not raise any argument by reference to s.62(1) in the substantive proceedings before Birss J and in fact not until the CMC in the account. In *Kohler Mira Ltd v Bristan Group Ltd* [2014] EWHC 1931(IPEC) I considered a defence to design right infringement under s.233(1) of the Copyright, Designs and Patents Act 1988 which is broadly equivalent to s.62(1), i.e. that the defendant did not HIS HONOUR JUDGE HAGON Approved Judgment *Abbott v Design & Display* know and had no reason to believe that design right subsisted. This was in the context of the trial of an inquiry as to damages suffered by the claimant (Kohler) and, as in the present case, the defence had not been raised until after the conclusion of the trial on the merits. I referred to the judgment of Warren J in *Adobe Systems Inc v Netcom Online.co.uk Limited* [2012] EWHC 446 (Ch) and to the argument advanced by the defendant (Bristan) that s.233(1) was only engaged at the stage of the inquiry because it was solely concerned with the availability of damages, not infringement. I said this: “[9] [10] [11] [12] That may be right, but seems to me to ignore policy issues which, although they are not identical to those considered by Warren J, are important for all that. Parties should know where they stand in relation to each side’s arguments by the time the pleadings are closed – not least in the IPEC. If it is a defendant’s case that damages to which the claimant would be entitled if he wins are never going to be available because of s.233(1), this should be made clear in the pleadings for the trial on liability. It may have a significant effect on the way the claimant pursues the proceedings and also the degree to which the claimant may be amenable to settlement. If the claimant succeeds at trial, knowledge of whether an argument is being advanced under s.233(1) might easily affect whether the claimant elects to go for an inquiry or an account of profits. Mr Cuddigan, who appeared for Bristan, argued that if Kohler made the wrong election in the present case, that was its own fault for not taking into account the possibility that Bristan might rely on s.233(1). I reject that. It was Bristan’s choice whether to rely on the subsection and Kohler’s right to know in good time what choice Bristan had made. In this court cards should not be held behind the back of litigants after the case management conference, to be played as and when seems tactically best, or alternatively only when a party notices that a card might be put into play. If Bristan had pleaded reliance on s.233(1), it would have been perfectly legitimate at the case management conference in the substantive proceedings for Bristan to have raised the question whether, as a matter of procedural economy, argument on the point might better be left to the inquiry, if there was to be one. The various arguments now raised by Bristan (summarised above) could have been advanced. The court might have decided they were telling and may have ruled that s.233(1) should be left to the inquiry. There would have been

no question of either party concealing part of its case from the other and in particular Kohler would have approached the proceedings in full knowledge of all points being taken against it. It seems to me that just as Warren J felt he had a discretion to allow defences to be raised for the first time at an inquiry (or so I infer from his judgment) and that such discretion should be exercised by reference to policy considerations, I should approach Bristan's application to rely on s.233(1) in the same way. In my judgment Bristan is not entitled to rely on that subsection for the reasons of policy I have referred to. These are not outweighed by other considerations." HIS HONOUR JUDGE HACON Approved Judgment Abbott v Design & Display 53. 54. I think I should take the same approach in relation to s.62(1). Particularly in the IPEC, if a party wishes to raise a defence under that subsection it should generally be done by the time of the CMC in the substantive proceedings. There may occasionally be exceptional reasons why a defendant should be allowed to raise the defence at a later stage but there are no such reasons here. Design & Display is not entitled to rely on s.62(1). Even it had been, I am not satisfied that Design & Display has established the necessary lack of knowledge or reasonable grounds for supposing that the Patent existed. In cross-examination Mr Lloyd said that he had only heard of patents because he was a local historian and he did not know whether his colleagues knew what a patent was. While it is easy for those whose working lives are concerned with patents to over-assume how much the general public know about patents, I think most individuals, such as Mr Lloyd and presumably his colleagues, will have heard of the concept of patents and will have on board the basic notion that you can get one to protect your idea. It seems to me unlikely that an interest in local history is needed to know that much.

55. Mr Lloyd made two further points. The first was that Design & Display's production director had drawn a snap-in insert of the type protected by the Patent so there was no reason for Design & Display to believe that patent protection was available in relation to that product. This may have happened but it was surprising since, as Mr Aikens pointed out to Mr Lloyd, such a drawing and the alleged home-grown conception of the idea had not been raised at the trial before Birss J despite Design & Display's arguments that the idea was obvious (and also despite its conceivably raising a defence pursuant to s.64 of the 1977 Act). Mr Lloyd's second point was that at the time the Claimants' patented insert had been introduced in 2007 Design & Display was, as he put it, not remotely interested in what its competitors were doing – although Mr Lloyd conceded that this might not have been true of the sales department. 56. I think that to satisfy the burden under s.62(1) it would have been necessary for Design & Display to have produced satisfactory evidence from the sales department to show that the complete indifference to competition and therefore to any patent protection which the competition held, or alternatively total ignorance of the concept of patent protection, both of which Mr Lloyd relied on, ran throughout the company. Absent that, I would by default have inferred that Mr Lloyd or his sales colleagues had reasonable grounds to have become aware of the PCT parent application for the Patent, which was published in June 2006.

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