



Financial relief sought for intellectual property claims

About this issue

This issue is based on experience we have gained from giving expert evidence over the last 25 years. This work has involved the production of over 100 expert reports, and oral testimony including under cross-examination on 12 occasions. This article also reflects the views of others involved in the dispute resolution process, in particular from lawyers, arbitrators and judges.

Our specific expertise is in the fields of global accountancy, marketing, valuation, lost profits and excessive or wasted costs. We have given independent expert evidence to assist dispute resolution involving issues of both liability and quantum. However, although this thoughtpiece draws mostly on our specific expertise and experience in quantifying IP claims, much of what follows can properly be regarded as of general application in the quantification for other types of claims such as for breach of warranties given in a sale and purchase agreement.

1. Introduction

This thoughtpiece is confined to the mainstream issues arising from considering financial relief (damages or an account of profits) sought by way of claims for IP infringement, from the perspective of a qualified accountant and IP valuer. It does not deal with other common forms of relief sought, such as various forms of injunctive relief.

IP infringement claims are often more concerned with establishing whether or not the defendant has liability. For this reason such claims are often split between liability and quantum. Such claims can initially be made in the alternative for damages or an account of profits. At the liability stage there are good reasons for keeping both in the alternative:

- a. It preserves the claimant's position with regards to limitation.
- b. It enables full disclosure relating to both damages and an account of profits.

At some point in the process, if the claimant successfully establishes liability the court may then need to determine financial relief. Before this is carried out, the claimant will need to elect either for damages or for an account of profits. From this point, the claimant will then no longer be able to seek both of these forms of financial relief in the alternative.



2. Damages

The following principles can be derived in relation to an assessment of damages resulting from IP infringement:

- a. A successful claimant is entitled, by way of compensation, to that sum of money which will put him in the same position he would have been in if he had not sustained the wrong, see *Livingstone v Rawyards Coal Co.* (1880) 5 App.Cas., 25 per Lord Blackburn at 39.
- b. The claimant has the burden of proving the loss, see *General Tire and Rubber Company v Firestone Tyre and Rubber Company Limited* [1976] RPC 197, at 212.
- c. The defendant being a wrongdoer, damages should be liberally assessed but the object is to compensate the claimant, not punish the defendant, see *General Tire* at p.212.
- d. The claimant is entitled to recover loss that was (i) foreseeable, (ii) caused by the wrong and (iii) not excluded from recovery by public or social policy, see *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443, at 452.
- e. In relation to causation, it is not enough for the claimant to show that the loss would not have occurred but for the tort. The tort must be, as a matter of common sense, a cause of the loss. It is not necessary for the tort to be the sole or dominant cause of the loss, see *Gerber* at p.452, although the less the contribution of the wrongdoing, the more acute the issue of causation will be.
- f. In assessing damages, the court will need to determine what would have happened had the tort not been committed and to compare it with what actually did happen. The court may also need to make a comparison between, on the one hand future events that would have been expected to occur had the tort not been committed and, on the other hand events that are expected to occur, the tort having been committed. Not much in the way of accuracy is to be expected bearing in mind all the uncertainties of quantification. See *Gerber* at first instance [1995] RPC 383, per Jacob J, at 395-396.
- g. Where the claimant has to prove a causal link between an act done by the defendant and the loss sustained by the claimant, the court must determine such causation on the balance of probabilities. If on balance the act caused the loss, the claimant is entitled to be compensated in full for the loss. It is irrelevant whether the court thinks that the balance only just tips in favour of the claimant or that the causation claimed is overwhelmingly likely, see *Allied Maples Group v Simmons & Simmons* [1995] WLR 1602, at 1609-1610.

Damages should compensate the claimant, not punish the defendant

- h. Where quantification of the claimant's loss depends on future uncertain events, such questions are decided not on the balance of probability but on the court's assessment, often expressed in percentage terms, of the loss eventuating. This may depend in part on the hypothetical acts of a third party, see *Allied Maples* at 1610.
- i. Where the claim for past loss depends on the hypothetical act of a third party, i.e. the claimant's case is that if the tort had not been committed the third party would have acted to the benefit of the claimant (or would have prevented a loss) in some way, the claimant need only show that he had a substantial chance, rather than a speculative one, of enjoying the benefit conferred by the third party. Once past this hurdle, the likelihood that the benefit or opportunity would have occurred is relevant only to the quantification of damages. See *Allied Maples* at 1611-1614.



In relation to a claim for lost profits, it can be necessary to consider a counterfactual history of events in which the IP was not infringed, assessing the net profits that would have been made, and then subtracting from that the net profits that were actually made in the same relevant period. The result is the damage sustained by way of loss of profits.

An alternative way of quantifying this would be to assess the loss of IP value or business value caused by the IP infringement.

Another alternative would be “Wrotham Park” damages which would be based on a hypothetical negotiation of licence fees from the infringer as a willing licensee to the IP owner as a willing licensor.

In addition, costs which were wasted because of the IP infringement can be claimed.

The rule of mitigation requires a claimant to take steps to minimise its loss and to avoid taking unreasonable steps that increase its loss. An injured party cannot recover damages for any loss which could have been avoided by taking reasonable steps. Costs incurred mitigating the losses caused by the IP infringement can also be claimed.

As there are a number of potential ways of quantifying damages this gives the potential to carry out cross checks and use different information and assumptions to support the amount of damages quantified. This should corroborate quantification and make it less vulnerable to challenges on key information or assumptions.

Any double counting between the various heads of losses will need to be identified and eliminated.

Interest on damages can also be claimed.



3. An account of profits made

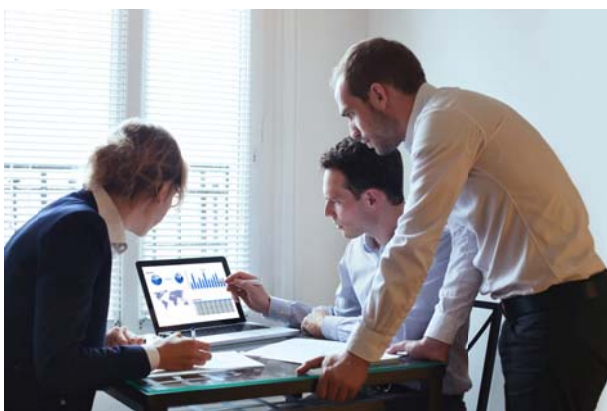
Such an account should generally be confined to profits made relating to the IP infringement, not for example for all profits made by a business using the IP amongst other things.

An account of profits is rare, so there is relatively little guidance as to how it should be approached.

In broad general terms, profits made by an infringing party will likely be lower than losses incurred by an IP owner as a result of an infringement.

It might be difficult to assess the level of such profits, depending on the nature and extent of disclosure at the point when the election has to be made for damages or an account of profits.

The relevant information for quantification will almost always be substantially under the control of the wrongdoer. Therefore in practice a claimant might find it difficult to obtain and properly analyse all of the information necessary to quantify such profits. A claimant might also find it difficult to deal with challenges from the defendant, for example where there is a potential for overhead cost allocation which would reduce profits.



4. Damages or an account of profits?

Typically the following considerations will apply whether damages are to be chosen or an account of profits:

- a. Where financial relief is an important objective of the IP infringement proceedings.
- b. Whether damages are more than an account of profits. In particular, if damage to a valuable brand can be claimed this is likely to be significant.
- c. Whether damages can be established more robustly than an account of profits.
- d. Whether better information and understanding is already in the possession and control of the claimant for damages rather than an account of profits.
- e. Whether the cost and time involved in assessing damages would be less than carrying out an account of profits.
- f. More guidance is available on how damages should be assessed compared with an account of profits.

The relevant information for taking an account of profits will almost always be substantially under the control of the wrongdoer.



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