



Neutral Citation Number: [2017] EWHC 2975 (IPEC)

Case No: CC 12 P 01174

**IN THE HIGH COURT OF JUSTICE**  
**CHANCERY DIVISION**  
**INTELLECTUAL PROPERTY ENTERPRISE COURT**

Royal Courts of Justice, Rolls Building  
Fetter Lane, London, EC4A 1NL

Date: 22/11/2017

**Before :**

**HIS HONOUR JUDGE HACON**

**Between :**

(1) OOO ABBOTT	
(2) GODFREY VICTOR CHASMER	<b><u>Claimants</u></b>
- and -	
(1) DESIGN & DISPLAY LIMITED	
(2) EUREKA DISPLAY LIMITED	<b><u>Defendants</u></b>

**Chris Aikens** (instructed by **Gordons Partnership LLP**) for the **Claimants**  
**Thomas St Quintin** (instructed by **Appleyard Lees**) for the **First Defendant**

Hearing dates: 24 July 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.

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HIS HONOUR JUDGE HACON

## **Judge Hacon:**

### **Introduction**

1. This is a further stage in the litigation between the Claimants (“Abbott”) and the First Defendant (“Design & Display”) regarding the latter’s infringement of the Abbott’s patent for slatted display panels. The principal component of the invention is a type of insert which is located into slots in the panels and which supports shelves or hangars.
2. The present dispute arises from my judgment dated 26 April 2017, [2017] EWHC 932 (IPEC) in the trial of the account of profits due to Abbott as a consequence of Design & Display’s infringement (“the Second Account Judgment”). The relevant background facts are set out in that judgment and I will not repeat them here. I will also be referring to my judgment of 4 September 2014, [2014] EWHC 2924 (“the First Account Judgment”) from which there was an appeal and to the judgment of the Court of Appeal dated 24 February 2016, [2016] EWCA Civ 95 (“the Appeal Judgment”).
3. In the Second Account Judgment I considered two matters remitted to this court by the Court of Appeal:
  - (1) The proportion of sales of slatted panels sold together with infringing inserts to be included within the Account of Profits.
  - (2) The deductions corresponding to general overheads which Design & Display was entitled to make from its profits due to be paid over to Abbott.
4. I ruled on those two matters and invited the parties to calculate the profit, if any, to be paid by Design & Display to Abbott pursuant to my rulings.
5. The parties have been unable to agree the sum due. Abbott says that it is £128,831.63, while Design & Display contends that it is nil because on a correct analysis Design & Display ran a net loss on its infringing business after costs. The discrepancy stems from a disagreement as to which overheads incurred in Design & Display’s business can properly be deducted from gross profits to arrive at a figure for net profit or loss.
6. There are also consequential issues regarding costs and there is an application by Abbott for permission to appeal.

### **The relevant principles governing the discount of overheads**

7. In the Second Account Judgment, guided by the Court of Appeal I set out the principles of law relating to how the court should deal with the defendant’s overhead costs. Those principles have not been challenged by either party:
  - “(1) 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.

- (2) The defendant is entitled to deduct the former costs from gross relevant profits.
- (3) 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.
- (4) 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."

### **Outstanding issues**

8. The parties are not agreed as to the effect of the Second Account Judgment on the deduction of certain costs incurred by Design & Display. These are:
  - (1) Wages and salaries paid by Design & Display to some of its employees, together with consequential national insurance contributions.
  - (2) Some of the costs of hired and recharged labour.
  - (3) Directors' national insurance contributions.
  - (4) Minor dividends paid to the manufacturing director and to the technical sales estimating director as part of their remuneration.

### **Wages and salaries**

9. In the First Account Judgment I pointed out (at [42]) that Design & Display had not attempted to show that any of its costs were attributable solely to the infringing business. All its deductible costs were presented as proportions of general overheads, calculated by reference to the revenue generated by the infringing business as a proportion of the whole. However, in cross-examination Godfrey Chasmer, the Second Claimant, who gave evidence for Abbott, volunteered the concession that labour costs incurred in cutting the slots in MDF panels to accommodate the infringing inserts would have been solely attributable to Design & Display's infringing business. Mr Chasmer calculated that the relevant cost came to £7,018 (see the First Account Judgment at [49]). This was the only head of costs deducted from Design & Display's profits without prior apportionment.
10. In the Second Account Judgment I referred to this and said:

"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.”

11. Abbott had speculated that costs were in principle directly deductible, arguing that such further heads of cost should be disallowed altogether since Design & Display had not provided any evidential basis on which to calculate what such costs should be.

12. The costs incurred by Design & Display were divided into two parts: ‘cost of sales’ and ‘administrative expenses’. Clive Lloyd, a director of Design & Display, explained the two categories in his second witness statement. Costs of sales included

“...costs such as material costs, packaging, haulage and transport, manufacturing wages and repair to plant.”

Administrative expenses included

“...costs such as overhead wages (eg office staff), sales and technical wages, repairs to premises, and office expenses (eg computers).”

13. Costs identified as ‘wages and salaries’ appeared under both heads. In his third witness statement Mr Lloyd distinguished them as follows. He said that wages and salaries treated as costs of sales were those of

“...manufacturing staff for instance warehouse staff, labourers, yardmen, drivers, production staff and management.”

Wages and salaries treated as administrative expenses were

“...for office staff including accounts, drawings, wages invoicing, filing, purchasing, estimating sales and business generation necessary to win, take and process orders as well as to support the manufacturing side.”

14. For both, Design & Display apportioned part of the wages and salaries to the infringing business and treated the apportioned sum as a cost to be deducted from the profits of that business.

15. The wages and salaries falling within ‘cost of sales’ included the labour costs incurred in cutting the slots in MDF panels to accommodate the infringing inserts – the one item treated as a directly deductible expense. These costs were therefore deducted from the total wages and salaries under ‘cost of sales’ before apportionment was carried out.

16. Abbott made no complaint in its submissions for the present hearing about the means of apportionment, i.e. how it was calculated. Nor was there criticism of any of the deductions made by Design & Display in respect of costs which fell within the category ‘administrative expenses’. Abbott’s objection in relation to wages and salaries concerned only the deductions made under ‘costs of sales’.

17. Abbott argued that there should have been no deduction whatever for these wages and salaries. The reason given was that they had not been shown to be costs exclusively

made up of general overheads which supported both the infringing business and Design & Display's non-infringing business. There should therefore be no deduction in the form of apportioned overheads. Moreover, no unapportioned sum could be deducted as a direct expense incurred solely in relation to the infringing business because there was no evidence from Design & Display from which it was possible to calculate what that sum was.

18. This same point was put by Abbott in alternative ways, which I will summarise. First, since Design & Display bore the burden of proof and in the absence of evidence that the wages in question could be better characterised as costs which should be apportioned, the court should have treated them as directly attributable costs.
19. Secondly, it was not sufficient for Design & Display to identify costs and then assign them to whichever category it wished. This allowed Design & Display to apportion costs in the same way as other overheads when in fact they were incurred disproportionately in relation to the non-infringing business.
20. Thirdly, having failed to identify these wages as directly attributable costs, they should have formed no part of the deductions from profits. This was because it was possible that the relevant deductions, had they been identified, would have been significantly less than the apportioned part of the wages which had been deducted as costs.
21. In my view Abbott's argument is one of form over substance. In the course of calculating a defendant's costs in an account of profits, the defendant may in his pleadings and evidence identify a cost either as being solely associated with his acts of infringement (what Abbott calls a 'directly attributable' cost) or alternatively as being a general overhead, i.e. a cost which was incurred in the conduct of the infringing business and one or more other non-infringing businesses. The defendant will go for either of these as he chooses, not because he is entitled to select one or the other as a matter of law but because in practice it will initially fall to the defendant to identify his costs and to characterise them.
22. Generally it will be in the interest of the defendant to maximise its directly attributable costs since the whole cost can be deducted from his profits. But, as Abbott points out, that may not be the case, depending on how apportionment is done and – this is Abbott's real point – how much of that cost was genuinely incurred in relation to the infringing business.
23. After the defendant has set out his case on costs it is open to the claimant to challenge that case. Without intending to give an exhaustive list, it is apparent that in relation to any cost the claimant could dispute (a) whether it was incurred at all, (b) the quantum of the cost claimed and (c) whether it was a directly attributable cost incurred solely in relation to the infringing business, or an overhead incurred also in relation to other businesses.
24. Abbott's challenge here is only in relation to (c). Abbott's case is that Design & Display was required to prove on the evidence that the wages in issue were an overhead. In my view, Design & Display did exactly that. I have quoted parts of Mr Lloyd's evidence above. Mr Lloyd also said in his third witness statement:

“The cost of sales and administrative expenses are not dependent on the types of insert sold.”

25. ‘Overheads’ is not a term of art strictly defined in law. It is nothing more than the word which has been used in earlier judgments to refer to those costs which cannot easily be ascribed uniquely to the infringing or a non-infringing business. This is a question of practicalities, not pedantic characterisation. For instance, Abbott does not dispute that the wages paid to employees who carried out invoicing for Design & Display are overheads. Yet the job of invoicing presumably involves at one moment processing an invoice concerning goods of the infringing business and at the next moment dealing with an invoice for goods of the non-infringing business. Taken overall, however, the job supports both the infringing and non-infringing business. As Abbott has accepted, as a matter of practical reality it was not appropriate for Design & Display to identify wages for the job of dealing with paperwork uniquely concerning the infringing business and to claim that as a directly attributable cost.
26. Design & Display’s clearly stated case was that the same applied to the wages of warehousemen, drivers and the like. Their tasks supported both the infringing and non-infringing businesses. Mr Lloyd said expressly that the level of these wages was not dependent on which of those businesses was being supported. So as a practical matter, it was easier to treat the wages as ‘overheads’ and to apportion part of them to the infringing business.
27. It is true that Design & Display’s evidence on this was neither extensive nor detailed. Mr Lloyd was cross-examined only briefly about it. He maintained that it would have been very costly to calculate the costs directly attributable to the infringing business. I accept that evidence. Mr Lloyd even cast doubt on the accuracy of Mr Chasmer’s possibly over-generous concession that £7,018 was the directly attributable cost of machining slatted panels. But that sum was accepted.
28. The evidence at trial did not support either of Abbott’s contentions, namely (a) that wages paid in relation solely to the infringing business could have been calculated at proportionate cost or (b) those wages were lower than the relevant sum apportioned to the infringing business by Design & Display.
29. Abbott argued by way of alternative that Design & Display’s evidence was thin and therefore, self-evidently, it can be concluded that the relevant wages should not have been treated as an ‘overhead’.
30. I disagree. Design & Display’s approach to the relevant wages as a deductible cost was on its face a practical approach. There was evidence in support of it. Had Abbott successfully challenged that evidence at trial, the position would have been different. As it is, Design & Display was entitled to apportion part of the relevant wages and salaries to the infringing business and to deduct that part from its profits.

### **NICs and hired and recharged labour**

31. Applying the same reasons I have given for allowing wages and salaries as a cost to be deducted from profits, two further costs claimed by Design & Display may also be deducted: national insurance contributions paid in respect of the wages and the cost of hired and recharged labour.

### **Directors' NICs**

32. In the Second Account Judgment I disallowed payments to directors as a deductible cost on the ground that such payments were decided by Mr and Mrs Lloyd, who together own 90% of Design & Display's shares, and that it could not be assumed that they bore any relation to the contribution made by Mr and Mrs Lloyd to the business or any part of it, including the infringing business.
33. Design & Display submitted that the same reasoning should not apply to the directors' NIC, national insurance contributions paid as a consequence of remunerating its directors. It should also not apply to dividends paid to directors other than Mr and Mrs Lloyd, specifically to the manufacturing director and to the technical sales estimating director. Design & Display has therefore deducted these as costs in respect of both 'wages and salaries' and 'administrative expenses'.
34. With regard to NIC contributions, Design & Display argued more specifically that a defendant in an account of profits must be taken as the claimant finds it. Further, the NIC payments were not to the directors at all but to HMRC. They should therefore be allowed as deductible costs.
35. It seems to me beside the point that the NIC contributions were not paid to the directors. They arose out of payments to the directors and for the reasons given in the Second Account Judgment cannot be said to bear any relation to the contribution of the directors to the business as a whole or, thus, to the infringing business. They should therefore not be deducted.

### **Dividends to directors other than Mr and Mrs Lloyd**

36. Dividends paid to directors other than Mr and Mrs Lloyd were, on one view, similar to wages paid to salaried staff. But I think there is a difference. I cannot assume that these directors were being rewarded according to the going market rate for what they did. That the salaried staff were being paid the market rate was not challenged. Design & Display now asks me to assume the same in relation to these remunerations.
37. I do not believe that I can just take it for granted that remunerations paid to directors, even to those who do not own the business, accord with market forces in the same way as do, say, the salaries of office staff or warehousemen. There was no evidence about this. The evidential burden rested on Design & Display and therefore I do not allow the deduction of the dividends paid to the relevant directors.

### **Net profit/loss on the infringing business**

38. Going by the figures supplied to me at the hearing, I calculate that Design & Display made a small loss on the infringing business. If my maths are wrong and there was a profit, the parties can make further submissions, in writing if appropriate, on the precise sum.

### **Costs excluding the appeal**

39. I have also been asked to give a judgment on costs. I will do so on what seems to me to be the certain basis that the sum due to Abbott in the account is either nil or a very small amount.
40. On the findings above, Design & Display is to be treated as the successful party and is entitled to its costs.
41. In the normal course, the costs in this court are capped. Design & Display made several offers of settlement, all of which are said to have been Part 36 Offers or to have had the consequences of a Part 36 Offer. The status of the offers was disputed by Abbott. But there is no doubt that whether or not they complied with Part 36, the offers were not beaten by Abbott.
42. The main point I have been asked to resolve is whether my overall discretion as to costs should be exercised to lift the costs caps. Design & Display relied by analogy on *PPL v Hagan* [2016] EWHC 3076 (IPEC) and referred to the judgment of Judge Birss in *Henderson v All Around The World* [2013] EWPC 19.
43. Abbott argued that if I were to decide that Design & Display should make no payment in the account, I should make no order as to costs excluding the appeal. Two reasons were given. First, the *Island Records* disclosure given by Design & Display was very inconsistent and highly inaccurate, at least to begin with. In a witness statement from Mr Lloyd dated 2 September 2013 it was said that Design & Display had made a net profit of £105,893.83 from the sale of infringing inserts alone. This did not include any part of the profit from slatted panels. On the strength of that, Abbott elected to pursue an account of profits.
44. On the day before the case management conference in the account, Design & Display served a second witness statement from Mr Lloyd dated 21 February 2014. Mr Lloyd said that he had made mistakes in his previous witness statement and suggested that Design & Display had made a profit of only £11,000 even though he now included a sum for profits from the slatted panel.
45. In a third witness statement dated 31 March 2014 Mr Lloyd revised this to a loss of over £20,000.
46. Abbott's second reason was that Design & Display had purported to welcome the idea of mediation but in practice had failed to respond to Abbott's invitations to pursue it. This is disputed by Design & Display and I do not believe that I can reach a concluded view about who was responsible for what.
47. With regard to Design & Display's offers and Mr Lloyd's changeable evidence, it seems to me that they raise two important and related considerations of policy. The first is the one behind Part 36 and indeed all offers, namely that parties should be encouraged both to make realistic offers and to respond realistically when an offer is made to them. This promotes settlement, the saving of costs and it decreases the use of court time.
48. The second policy consideration is that if an account of profits is to be conducted in an orderly and cost-effective manner, it is essential that the evidence from the defendant is prepared with appropriate care. An estimate of profits from an infringing

business given pursuant to an *Island Records* order will not be exact, but there was no good excuse for what Design & Display now concedes to have been wildly inaccurate evidence from Mr Lloyd. I have no real doubt that had Mr Lloyd's first witness statement advanced the assertion that Design & Display had made a loss, Abbott would have elected for an inquiry as to damages. It is a matter of speculation what would then have happened, but given Design & Display's willingness to make offers, there is a fair possibility that the inquiry would have settled. On any view, I think that Abbott has a good claim to its costs up to reasonable period after service of Mr Lloyd's second witness statement.

49. Thereafter Abbott could have changed its election to an inquiry and sought an order for costs thrown away. However I can see why it chose not to, bearing in mind that Design & Display's evidence seemed very unreliable and therefore vulnerable to challenge and because there was no certainty that the court would make a favourable award of costs.
50. In short, I take the view that Design & Display's failure to take the trouble to serve accurate evidence probably led to significant wasted expenditure by Abbott and possibly an unnecessary hearing of the account. Design & Display protests that this was not done deliberately, but I do not believe that the consequences of badly prepared evidence can be just waived away.
51. I have reached the view that Design & Display is entitled to its costs but that I should not lift the costs caps. Abbott must pay Design & Display's costs subject to the usual caps applicable in this court.

### **Costs of the Appeal**

52. The Court of Appeal ruled that Design & Display's costs of the appeal should be determined by this court. It is agreed that Design & Display is entitled to its costs but there is a dispute about the basis on which they should be assessed and another about the quantum of a payment on account. I have been asked to resolve these points.
53. Design & Display seeks its costs of the appeal on an indemnity basis. It relies on two offers made by Design & Display prior to the hearing of the appeal which Abbott did not accept. Design & Display referred to *Franks v Sinclair* [2006] EWHC 3656 (Ch). However, each case turns on its own facts. For reasons already discussed, Abbott had cause to doubt the reliability of what it was being told by Design & Display, which made its refusal to accept offers more understandable than might otherwise have been the case. The costs of the appeal should be paid on the standard basis.
54. Those costs apparently total £32,221.50. Design & Display seeks a payment on account of £24,000, Abbott has offered £19,000. Abbott must pay £20,000.

### **Permission to appeal**

55. Abbott has stated that if I were to decide in Design & Display's favour on the issue of wages and salaries, it seeks permission to appeal and has asked me to decide the question of permission in this judgment.

56. Two grounds for appeal are advanced. The first is that it was not open to me to decide on the evidence that the wages in question were ‘overheads’ and therefore not open to me to make any deduction at all in respect of such wages. I have dealt with Abbott’s submissions on this above. It was an issue resolved on the evidence and for that reason would not generally be revisited by the Court of Appeal.
57. The second ground of appeal relates to a paragraph in the Second Account Judgment. I quoted what Lewison LJ had said in the Appeal Judgment at [42] and went on to say this:
- “[54] 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.”
58. My reference to ‘condition (b)’ was to the one identified in paragraph 7(3)(b) in this judgment.
59. Abbott submitted that I was wrong in this paragraph to hold that the issue of opportunity cost should not be central to the question whether the infringer should be permitted to deduct overheads from his profits. Abbott developed its argument by saying that Design & Display had been obliged to show that the non-infringing business would have made a gross profit. It had failed to do so. Therefore Design & Display had not established that, absent infringement, the overheads incurred in the infringing business would have been used to generate profits in the non-infringing business.
60. ‘Opportunity cost’ is the profit that a defendant would have made from a lawful business that was displaced by the infringing business. This was considered in a little detail in *Dart Industries Inc v Decor Corp Pty Ltd* [1994] FSR 567. It was not in doubt, even in that case, that the defendant may not claim the opportunity cost. The question was whether the defendant could claim the apportioned overheads which would have sustained that business, see the First Account Judgment at [39].
61. I am not persuaded that it was incorrect to have said in paragraph 54 of the Second Account Judgment that the issue of opportunity cost is not central to the question whether the infringer should be able to deduct overheads, according to the law stated in the Appeal Judgment. Or that there is a real prospect of persuading the Court of Appeal that it was incorrect. As was explained by Lewison LJ:
- “[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.”

62. Thus, the first criterion to be satisfied by an infringer wishing to deduct overheads from his profits is that the overheads claimed would have been incurred anyway even if the infringement had not occurred. For the reasons given in the Second Account Judgment at [63]-[65], Design & Display satisfied that criterion.
63. This first criterion did not require Design & Display to prove that, taken in isolation, the non-infringing business would have generated gross profits. Abbott’s argument is really a variation on its earlier theme. Design & Display showed that its business overall generated a gross profit. For reasons explained by Mr Lloyd, it would have been disproportionately costly to isolate the profits and costs exclusively relating to the non-infringing business and from these to arrive at a figure for the profit, or otherwise, of the non-infringing business. As it happens there is a reasonable inference from Mr Lloyd’s evidence that if this had been done the figures would have revealed that the non-infringing business generated a gross profit. It is true that this was not specifically demonstrated, but that is neither here nor there since there was no obligation on Design & Display to establish a gross profit.
64. I take the view that there is no real prospect of Abbott succeeding in an appeal. Permission to appeal is refused.