HOGARTH CHAMBERS

24 February 2016

ACCOUNTS OF PROFITS CLARIFIED

Design & Display Limited v. OOO Abbott & Anor. [2016] EWCA Civ 95

The Court of Appeal (Lewison LJ, with whom Tomlinson LJ and the Chancellor, Sir Terence Etherton, agreed) has today given judgment ([2016] EWCA Civ 95) allowing the appeal of Design & Display Limited in an account of profits.

The decision gives important clarification of:

1. the circumstances in which a defendant may deduct overheads from the profits it made from infringement, and
2. the identity and extent of the products on which a defendant must pay over its profits.

Design & Display is a manufacturer of shopfitting equipment. It had been held to have infringed a patent owned by OOO Abbott for slatwall panels incorporating a "clip-in" aluminium insert. The well-known panels give a retailer great flexibility in its display arrangements. Traditionally, inserts in the slatwall panels were either stiff aluminium inserts that were slid into slots in the wooden panels, or were flexible plastic inserts clipped in from the front of the slots. Abbott's innovation was the realisation that a clip in aluminium insert was feasible (the liability decision has neutral citation [2013] EWPCC 27).

At first instance ([2014] EWHC 2924 (IPEC), see also [2014] EWHC 3234 (IPEC)), HHJ Hacon held that the defendant had to pay over its profits on both the clip-in inserts and on the wooden panels. He also held that the defendant was not entitled to deduct its overheads unless it was able to show that it was *both* working to capacity and that the infringements displaced a non-infringing business.

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On appeal, the defendant argued that it should not have been ordered to pay over the profits made on the slatted panels. They were part of the CGK, their interaction with the clip-in insert was well known, and for the most part their sales had not been caused by the clip in insert: most customers came to the defendant to buy the panels and were indifferent to the type of insert that was used.

The defendant also argued that the judge was wrong to deny a deduction of overheads on the basis that it had not shown that it was both working to capacity and that a non-infringing business was displaced by the infringements. It merely needed to show one or the other.

Lewison LJ, giving the only reasoned judgment, held that the profits for the panels were only to be paid over if the panels would not have come into existence at all but for the infringement, or if the the infringing insert was the essential ingredient in the creation of the defendant's whole product (i.e. the panel with the insert incorporated). That question had not been answered and was remitted to the IPEC for further consideration.

In respect of the deduction of overheads, Lewison LJ held that the judge was wrong to combine alternative reasons permitting the deduction of overheads: if an infringer establishes that but for the infringement it would have manufactured or sold other (non-infringing) products then to the extent that its overheads would have been used in sustaining that alternative production or sale, those overheads may be deducted in computing the relevant profits for which the infringer must account. The question of which overheads met that test was also remitted.

Tom St Quintin, Hogarth Chambers instructed by Appleyard Lees, acted as sole counsel for the successful appellant. Hugo Cuddigan QC and Chris Aikens, 11 South Square acted for the respondents.

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