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Trade Marks and the Bottom Line: Valuation of trade marks and branding in the 21st century

SPEAKER

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Overview

- How is a brand valued under English law in trade mark infringement proceedings?
- How is it applied in practice?



The purpose of damages

- *Damages should be liberally assessed but... the purpose is to compensate the claimant and not punish the defendant.*
- *General Tire and Rubber Co v Firestone Tyre and Rubber Co [1976] RPC 197.*



Council Directive 2004/48/EC on the Enforcement of IP Rights

- Article 13 requires that judicial authorities across the European Union:
 - *(a) shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the rightholder by the infringement; or*
 - *(b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.*



General principles for assessment of damages

- *Gerber Garment Technology v Lectra Systems* by Jacob J at first instance at [1995] RPC 383, and by the Court of Appeal at [1997] RPC 443



General principles for assessment of damages (ii)

- i) damages are compensatory. The general rule is that the measure of damages is to be, as far as possible, that sum of money that will put the claimant in the same position as he would have been in if he had not sustained the wrong;
- ii) the claimant can recover loss which was (i) foreseeable, (ii) caused by the wrong, and (iii) not excluded from recovery by public or social policy. It is not enough 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;
- iii) the burden of proof rests on the claimant. Damages are to be assessed liberally. But the object is to compensate the claimant and not to punish the defendant;
- iv) it is irrelevant that the defendant could have competed lawfully;
- v) where a claimant has exploited his patent by manufacture and sale he can claim (a) lost profit on sales by the defendant that he would have made otherwise; (b) lost profit on his own sales to the extent that he was forced by the infringement to reduce his own price; and (c) a reasonable royalty on sales by the defendant which he would not have made;



General principles for assessment of damages (iii)

- vi) as to lost sales, the court should form a general view as to what proportion of the defendant's sales the claimant would have made;
- vii) the assessment of damages for lost profits should take into account the fact that the lost sales are of "extra production" and that only certain specific extra costs (marginal costs) have been incurred in making the additional sales. Nevertheless, in practice costs go up and so it may be appropriate to temper the approach somewhat in making the assessment;
- viii) the reasonable royalty is to be assessed as the royalty that a willing licensor and a willing licensee would have agreed. Where there are truly comparable licences in the relevant field these are the most useful guidance for the court as to the reasonable royalty. Another approach is the "profits available" approach. This involves an assessment of the profits that would be available to the licensee, absent a licence, and apportioning them between the licensor and the licensee; and
- ix) where damages are difficult to assess with precision, the court should make the best estimate it can, having regard to all the circumstances of the case and dealing with the matter broadly, with common sense and fairness.



Damages based on account of profits

- Intended to deprive defendants of the profits which they have improperly made.
- Defendant is treated as having conducted business on behalf of the claimant.



Damages based on account of profits (ii)

- Must be “true profit” attributable to the infringing acts:
 - i) profits already made;
 - ii) only profits caused by the infringement;
 - iv) defendant taken as he is; and
 - v) overheads, including tax, are deductible.



Damages based on the loss suffered

- Assumes that the claimant granted a licence to the defendant at the market rate for the duration of the infringement
- “user principle”



Damages based on the loss suffered

(ii)

- In trying to determine the fair amount, the court will look for:
 - direct comparisons
 - comparable licences and data e.g. market sector
 - terms of any agreement between the parties
 - the value and contribution of the mark to the defendant's business
 - the nature and extent of the infringing use
 - whether the infringing party was a “direct competitor”



Hotel Cipriani SRL & Others v Cipriani (Grosvenor Street) Ltd

- 3 x defendants:
 - D1 ran restaurant in London
 - D2 was an individual, sole director of D1
 - D3 was licensor of trade mark CIPRIANI to D1
- Claimant won on liability and sought account of profits



Hotel Cipriani – Licensee’s liability

- Trade mark licence agreement for 11.5% of gross sales.
- All marks in licence infringed therefore all of the entitlement due under the licence was attributable to infringing activity.
- Gross sales = £34,640,000.
- 11.5% = £5,304,000.



Hotel Cipriani – Restaurant operator's liability

- Profit disclosed = £3,826,000
- But how much is related to infringing activity?
 - Some profit would have accrued anyway
 - Some IP didn't infringe



Hotel Cipriani – Restaurant operator's liability (ii)

1. Typical functional profit for a restaurant = 5% = £1,732,000
2. Intangibles profit = profit – functional profit = £2,094,000

But not all IP infringes so...



Hotel Cipriani – Restaurant operator's liability (iii)

- Separate out infringing IP from non-infringing IP
- Ratio of royalty to management fee
= 11.5:3 = 79%

$$£2,084,000 \times 0.79 = £1,660,000$$



Thank you

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