

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE PATENTS COUNTY COURT
His Honour Judge Birss QC
[2010] EWPC 40

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 09/11/2012

Before:

LORD JUSTICE JACKSON
LORD JUSTICE KITCHIN
and
MR JUSTICE PETER SMITH

Between:

(1) HOLLISTER INCORPORATED
(2) DANSAC A/S
- and -
MEDIK OSTOMY SUPPLIES LIMITED

**Claimants/
Appellants**

**Defendant/
Cross-
Appellant**

Mark Vanhegan QC and Giles Fernando (instructed by Sloan Plumb Wood LLP) for the
Claimants/Appellants
Richard Hacon (instructed by DWF LLP) for the Defendant/Cross-Appellant

Hearing dates: 3-4 October 2012

Judgment

Lord Justice Kitchin:

Introduction

1. This is an appeal against a decision and consequential order of HHJ Birss QC following the hearing of an account of the profits made by the defendant (“Medik”) from its infringement of various registered UK and Community trade marks which belong to the claimants and contain or consist of the words “Hollister” or “Dansac”.
2. The first claimant (“Hollister”) and the second claimant (“Dansac”) are members of the Hollister group of companies and are engaged in making and selling a range of medical products, including ostomy products, under and by reference to their registered trade marks.
3. Medik is a parallel importer and in 2003 it began to import into and sell in the UK ostomy products placed upon the market by the claimants or with their consent elsewhere in the EEA but which it had repackaged and to which, in so doing, it had re-applied the claimants’ registered trade marks.
4. As the judge observed, there can be no objection to this activity provided the conditions explained by the Court of Justice in Joined Cases C-427/93, C-429/93, C-436/93 *Bristol-Myers Squibb v Paranova A/S* [1996] ECR I-3457 are met. These conditions, often referred to simply as the *BMS* conditions, include, as *BMS* condition (5), a requirement that the importer gives notice to the trade mark owner before any repackaged product is put on sale, and, on demand, supplies him with a specimen.
5. Medik failed to give Hollister or Dansac the appropriate notice in accordance with *BMS* condition (5) and accordingly, on 6 July 2009, the claimants commenced these proceedings against Medik for infringement of their registered trade marks. On 27 April 2010, Medik admitted the alleged infringements and, on 14 June 2010, a consent order was made against it restraining it from further infringement, directing it to give disclosure of the extent of its infringing activities and directing that there be an inquiry as to damages suffered by the claimants or, at the claimants’ option, an account of the profits made by Medik from its infringing activities.
6. After reviewing the disclosure provided by Medik, the claimants elected for an account of profits which came on for trial before the judge on 2 November 2011. The parties invited the judge to decide particular issues of fact and principle on the basis that this would allow their accountants to determine the precise sum due. The judge duly proceeded to hear the account and gave judgment in writing on 20 December 2011. So far as relevant to this appeal, he made the following findings.
7. First, in carrying out the account and determining the sum the infringer must pay, the court is required by Community law to consider the extent of damage to the trade mark owner caused by the parallel importer’s infringement and the principle of proportionality. Accordingly the court should adopt the following approach:
 - i) assess the account on the normal basis under English law;

- ii) consider the extent of damage caused to the trade mark proprietor by the infringement and the issue of proportionality, in all the circumstances of the case;
 - iii) decide what final sum should be awarded having regard both to the sum assessed on the account at step (i), and the factors considered at step (ii).
8. Applying this approach, the judge decided to award the claimants half of Medik's net profits assessed on the normal basis under English law.
9. Second, the judge addressed the approach to be adopted to the calculation of net profits. Specifically he held that Medik was entitled to deduct not only the direct costs associated with the importation and sale of the infringing products but also a proportion of its general overhead costs. It was, he said, irrelevant whether, absent the infringement, the costs would have been incurred anyway.
10. Third, the judge resolved a dispute between the parties about the number of infringing products sold by Medik. He found that Medik had sold a total of 58,211 infringing products comprising 3,275 repackaged Hollister products and 54,936 repackaged Dansac products, these being the figures for which Medik contended.
11. On this appeal both sides submit that the judge fell into error in making the first of these findings. The claimants say there should have been no deduction from the sum found due upon the taking of the account on the normal basis under English law. Medik contends the judge ought to have found that the claimants were not entitled to any of Medik's profits at all.
12. The claimants also say the judge fell into error in making the second and third findings. They say that the judge adopted the wrong approach to overheads and that he underestimated the number of infringing products which Medik had sold.
13. The following issues therefore fall to be determined:
 - i) whether the judge erred in his approach to the taking of an account for infringement arising from a breach of *BMS* condition (5);
 - ii) whether the judge erred in his approach to the assessment of net profits, a point of general importance in intellectual property cases;
 - iii) whether the judge erred in finding that Medik had sold a total of 58,211 infringing products.
14. I will address these issues in turn.

An account for breach of BMS condition (5)

15. The rights of a registered trade mark owner are defined by Article 5 of Directive 2008/95/EC ("the Directive") which has replaced Directive 89/104/EEC, and by Article 9 of Council Regulation (EC) No 207/2009 ("the Regulation") which has replaced Council Regulation (EC) No 40/94. These provisions are the same in all material respects and so I need only refer to Article 5 of the Directive which reads, so far as relevant:

“Rights conferred by a trade mark

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:
 - a. any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
 - ...
3. The following, *inter alia*, may be prohibited under paragraphs 1 and 2:
 - a. affixing the sign to the goods or to the packaging thereof;
 - b. offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;
 - c. importing or exporting the goods under the sign;
 - d. using the sign on business papers and in advertising.”

16. Article 5 of the Directive is subject to Article 7 (corresponding to Article 13 of the Regulation) which provides:

“Exhaustion of the rights conferred by a trade mark

1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.
 2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”
17. Article 7(1) of the Directive enshrines the principle of Community exhaustion. Save in the circumstances defined by Article 7(2), a trade mark owner is precluded from relying on his trade mark rights to prevent the importation of a product which has been put on the market in another Member State by him or with his consent. In the context of parallel imports of repackaged products it raises the question as to what constitutes a legitimate reason for the trade mark owner to oppose further

commercialisation of the imported product. This question was answered by the Court of Justice in *Bristol-Myers Squibb* in articulating the five *BMS* conditions:

“Article 7(2) ... must be interpreted as meaning that the trade mark owner may legitimately oppose the further marketing of a pharmaceutical product where the importer has repackaged the product and reattached the trade mark unless:

- (1) it is established that reliance on trade mark rights by the owner in order to oppose the marketing of repackaged products under that trade mark would contribute to the artificial partitioning of the markets between Member States ...;
- (2) it is shown that the repackaging cannot affect the original condition of the product inside the packaging; ...;
- (3) the new packaging clearly states who repackaged the product and the name of the manufacturer in print such that a person with normal eyesight, exercising a normal degree of attentiveness, would be in a position to understand; similarly, the origin of an extra article from a source other than the trade mark owner must be indicated in such a way as to dispel any impression that the trade mark owner is responsible for it; however, it is not necessary to indicate that the repackaging was carried out without the authorization of the trade mark owner;
- (4) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner; thus, the packaging must not be defective, of poor quality, or untidy; and
- (5) the importer gives notice to the trade mark owner before the repackaged product is put on sale, and, on demand, supplies him with a specimen of the repackaged product.”

18. In a series of joined cases reported as *Glaxo Group & Ors v Dowelhurst Ltd (No 2)* [2000] FSR 529, Laddie J considered *BMS* condition (5) in some detail in addressing the submission by various trade mark owners that a breach of this condition rendered the parallel importation of repackaged pharmaceuticals actionable infringements. After reviewing the case law of the Court of Justice, including *Bristol-Myers Squibb*, Laddie J felt driven to accept the submission, although he did so without enthusiasm, observing that, if carried to its logical conclusion, it would empower trade mark owners to prevent the importation of their own products when that importation would do them no relevant harm. In his view, this conclusion ran counter to the supremacy of the free movement rule. He continued that he was not convinced that the full repercussions of the requirement of notice had been brought to the attention of the

Court and this was a matter which it should reconsider as soon as possible. He therefore referred to the Court the following, amongst other, questions:

- “(5) Where an importer or someone dealing in imported goods intends to use the proprietor’s trade mark on, or in relation to, those goods and such use does and will not prejudice the specific subject matter of the mark, must he nevertheless give the proprietor advance notice of his intended use of the mark?
 - (6) If the answer to the previous question is in the affirmative, does that mean that failure of the importer or dealer to give such notice has the effect of entitling the proprietor to restrain or hinder the importation or further commercialisation of those goods even though such importation or further commercialisation will not prejudice the specific subject matter of the mark?
 - (7) If an importer or someone dealing in imported goods must give prior notice to the proprietor in respect of uses of the trade mark which do not prejudice the specific subject matter of the mark, (a) does that requirement apply to all such cases of the trade mark, including in advertising, relabelling and repackaging or, if only some uses, which; (b) must the importer or dealer give notice to the proprietor or is it sufficient that the proprietor receives such notice; (c) how much notice must be given?
 - (8) Is a national court of a member state entitled, at the suit of the proprietor of trade mark rights, to order injunctions, damages, delivery up and other relief in respect of imported goods or the packaging or advertisements therefore where the making of such an order (a) stops or impedes the free movement of goods placed on the market within the EC by the proprietor or with his consent but (b) is not for the purpose of preventing harm to the specific subject matter of the rights and does not help to prevent such harm?”
19. In his opinion, (Joined Cases C-143/00 and C-443/99 *Boehringer Ingelheim KG & Ors v Swingward Ltd & Ors* [2003] Ch 27 (*Boehringer I*)), Advocate General Jacobs pointed out (AG [126]) that the notice requirement dated from Case 102/77 *Hoffmann-La Roche & Co AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mBH* [1978] ECR 1139, 1165 at [12], where the Court explained that, given the trade mark owner’s interest that the consumer should not be misled as to the origin of a product, the trader should be allowed to sell a repackaged product only on condition that he give the proprietor notice and that he state on the new packaging that the product has been repackaged. Then, after referring to *Bristol-Myers Squibb*, the Advocate General explained (AG [127]) that the notice requirement had been confirmed in Case C-349/95 *Frits Loendersloot (trading as F Loendersloot*

Internationale Expeditie) v George Ballantine & Son Ltd [1997] ECR I-6227 where the Court reiterated that the interests of the trade mark owner, and in particular his need to combat counterfeiting, are given sufficient weight if the importer gives him prior notice that the relabelled products are to be put on sale. The Advocate General continued (AG [130]-[131]) that against this solid pedigree of case law, and based as it was upon cogent reasons, the notice requirement could not depend upon whether there was actual prejudice to the specific subject matter of the trade mark. The mere fact of repackaging was liable to prejudice the specific subject matter of the mark and the advance notice requirement gave the trade mark owner the opportunity to verify the position for himself. Nor was there any reason to depart from the Court's clear indications that the notice must be given by the parallel importer. Turning to the remedy for failure, the Advocate General noted the defendants' argument that it would be entirely disproportionate to allow a trade mark owner to prevent further marketing because of a failure to observe a procedural requirement in a case where no harm was done to the specific subject matter of the mark, but reasoned (AG [135]-[136]) that the conclusion seemed inescapable that if the importer failed to give reasonable advance notice, the repackaging constituted an infringement; and further, that liability for infringement was the only realistic sanction for failure.

20. The Court of Justice (also reported at [2003] Ch 27) followed the opinion of the Advocate General, explaining (at [61]) that, according to the case law of the Court, a parallel importer who repackages a trade marked pharmaceutical product must give prior notice to the trade mark proprietor that the repackaged product is being put on sale. Further, at the request of the trade mark owner, the importer must also supply a sample of the repackaged product before it goes on sale. The purpose of this requirement is to enable the proprietor to check that the repackaging is not carried out in such a way as directly or indirectly to affect the original condition of the product and that the presentation after repackaging is not such as to damage the reputation of the trade mark. It also affords the trade mark owner a better possibility of protecting himself against counterfeiting.
21. It followed, the Court continued (at [63] and [68]), a parallel importer must, in any event, in order to be entitled to repackage a trade-marked pharmaceutical product, fulfil the requirement of prior notice. If the parallel importer does not satisfy that requirement, the trade mark proprietor may oppose the marketing of the repackaged product. Further, it is incumbent on the parallel importer himself to give notice to the trade mark proprietor of the intended repackaging. In the event of dispute, it is for the national court to assess, in the light of all the relevant circumstances, whether the proprietor had a reasonable time to react to the intended repackaging.
22. The cases then returned to the High Court. In his second judgment, *Glaxo Group Ltd and the Wellcome Foundation Ltd v Dowelhurst Ltd & other actions* [2003] ETMR 89, Laddie J held that the claim for infringement must succeed against all those imported products in respect of which no adequate notice had been given. Further, the claimants were entitled to damages although, in respect of many products, their financial recovery for failure to give notice was likely to fall within their recovery for the more major infringement of their rights caused by the defendants' failure to repackage the imported goods in accordance with the law as explained by the Court of Justice.

23. On appeal by the defendants, this court took the view that it was still not clear whether, if notice was not given, the parallel imports made until it was given must be regarded as infringements with the particular consequence that the importer must pay damages or render an account of the profits he had made. It also considered the question of financial remedies had not been fully resolved in the cases before the Court of Justice and it therefore made sense to make a further reference: *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma GmbH & Co KG v Swingward Ltd* [2004] EWCA Civ 129, [2004] ETMR 65 at [100] – [102]. The court therefore stayed the proceedings and referred the following, amongst other, questions:

“Notice

(3) Where a parallel importer has failed to give notice in respect of a repackaged product as required by the fifth condition of *Bristol-Myers Squibb and Others*, and accordingly has infringed the proprietor’s trade mark(s) for that reason only:

(a) is every subsequent act of importation of that product an infringement or does the importer only infringe until such time as the proprietor has become aware of the product and the applicable notice period has expired?

(b) is the proprietor entitled to claim financial remedies (i.e. damages for infringement or the handing over of all profits made by infringement) by reason of the importer’s acts of infringement on the same basis as if the goods had been spurious?

(c) is the granting of financial remedies to the proprietor in respect of such acts of infringement by the importer subject to the principle of proportionality?

(d) if not, upon what basis should such compensation be assessed given that the products in question were placed on the market within the [European Economic Area] by the proprietor or with his consent?”

24. The opinion of Advocate General Sharpston and the decision of the Court of Justice are reported as Case C-348/04 *Boehringer Ingelheim KG v Swingward Ltd* [2007] ETMR 71 (*Boehringer II*).
25. The Advocate General took a rather different line from Advocate General Jacobs in *Boehringer I*, observing (AG [71]) the requirement of notice does not appear to have any Treaty basis and (AG [72]) its rationale revealed it to be in the nature of a procedural requirement. It followed that breach of the notice requirement ought to attract a sanction distinct from the sanctions applicable for breach of the other, substantive, BMS conditions.
26. The Advocate General also expressed the opinion (AG [76] – [77]) that in the event of no or inadequate notice but compliance with the other four substantive *BMS*

conditions, it would be disproportionate to sanction the parallel importer for failure to give notice as severely as if, in addition to failing to give notice, he had breached one or more of those substantive conditions. A sanction would nonetheless be appropriate because giving notice is an important procedural requirement and failure to give notice deprives the trade mark owner of the opportunity to effect the prior control that Community law allows him. The sanction should thus be effective and dissuasive but not equal to the sanction that would apply for breach of one or more of the substantive conditions. Further, if a trade mark owner were to become aware from another source of a repackaged product and thereafter delay commencing proceedings with a view to increasing any financial award for infringement, it would be disproportionate and unjust for him to benefit from his own delay.

27. I think it clear that the Court of Justice did not follow the Advocate General's opinion, or at least did not do so without qualification. It began with some preliminary observations including (at [15]) that it is the repackaging of the trade-marked products in itself which is prejudicial to the specific subject matter of the mark, and it is not necessary in that context to assess the actual effects of the repackaging by the parallel importer.
28. The Court continued (at [19]) that it was clear from settled case law that the change brought about by any repackaging of a trade-marked pharmaceutical product – creating by its very nature the risk of interference with the original condition of the product – may be prohibited by the trade mark proprietor unless the repackaging is necessary to enable the marketing of the parallel imported product and the legitimate interests of the proprietor are also safeguarded.
29. Then (at [20]) the Court reiterated that a parallel importer who repackages a trade-marked pharmaceutical product must give prior notice to the trade mark proprietor that the repackaged product is being put on sale and, at the request of the proprietor, the importer must also supply a sample of the repackaged product. This requirement, the Court continued, fulfils the purposes it had explained at [61] of its decision in *Boehringer I* (set out at [20] above).
30. Against this background, the Court came to consider (at [55] – [64]) the consequences of the failure to give notice. The Court began by explaining that if the parallel importer does not satisfy the notice requirement, the trade mark proprietor may oppose the marketing of the repackaged pharmaceutical product. Further, it is incumbent on the parallel importer himself to give notice to the trade mark proprietor of the intended repackaging. It is not sufficient that a proprietor be notified by other sources.
31. The Court continued (at [56]) that it followed that if a parallel importer has failed to give prior notice to the trade mark proprietor then any subsequent importation of the product will infringe the right of the proprietor until notice is given.
32. The Court then turned to the question whether a trade mark proprietor is entitled to claim financial remedies by reason of the importer's acts of infringement on the same basis as if the goods had been spurious. It began by summarising the parties' contentions. The claimants maintained that the failure to give prior notice must be penalised in the same way as if the goods had been spurious. The defendants, on the other hand, contended that the failure to give prior notice could not give rise to

financial remedies assessed in that way and that a different regime should apply. The Commission took a different position, stating that compensation for failure to give prior notice must be determined in accordance with principles of national law on financial remedies provided that those principles were compatible with Community and international law and, in particular, with the principles of equivalence, effectiveness and proportionality.

33. Referring to the Commission's position, the Court continued (at [58] – [59]) it must be borne in mind that Member States are required, within the freedom left to them by the third paragraph of Article 288 of the Treaty on the Functioning of the European Union (ex Article 249 EC), to choose the most appropriate forms and methods to ensure the effectiveness of directives in the light of their objectives. Community law does not lay down any specific sanctions for infringement of a registered trade mark and it is therefore incumbent on the national authorities to adopt appropriate measures to deal with such infringements. Those measures must be not only proportionate, but also sufficiently effective and a sufficient deterrent to ensure that the Directive is fully effective.
34. The Court then explained (at [61]-[62]) that the trade mark owner's right to prevent the parallel importation of pharmaceutical products in breach of the notice requirement is no different from that in respect of spurious goods:
 - “61. It follows that the trade mark owner's right to prevent parallel importation of pharmaceutical products which, while not spurious, have been marketed in breach of the requirements to give prior notice to that proprietor is not different from that enjoyed by the proprietor in respect of spurious goods.
 62. In both cases, the products ought not to have been marketed on the market concerned.”
35. Finally, the Court expressed its conclusion and answered the referred questions in these terms at [63] – [64]:
 - “63. Thus, a national measure under which, where a parallel importer has marketed goods which are not spurious without giving prior notice to the trade-mark proprietor, that proprietor is entitled to claim financial remedies on the same basis as if the goods had been spurious, is not in itself contrary to the principle of proportionality. However, it is for the national court to determine the amount of the financial remedies according to the circumstances of each case, in the light of, in particular, the extent of damage to the trade mark proprietor caused by the parallel importer's infringement and in accordance with the principle of proportionality.
 64. In the light of the foregoing, the answer to the third question must be that, where a parallel importer has

failed to give prior notice to the trade mark proprietor concerning a repackaged pharmaceutical product, he infringes that proprietor's rights on the occasion of any subsequent importation of that product, so long as he has not given the proprietor such notice. The sanction for that infringement must be not only proportionate, but also sufficiently effective and a sufficient deterrent to ensure that Directive 89/104 is fully effective. A national measure under which, in the case of such an infringement, the trade mark proprietor is entitled to claim financial remedies on the same basis as if the goods had been spurious, is not in itself contrary to the principle of proportionality. It is for the national court, however, to determine the amount of the financial remedies according to the circumstances of each case, in the light in particular of the extent of damage to the trade mark proprietor caused by the parallel importer's infringement and in accordance with the principle of proportionality."

36. The arguments before Judge Birss focussed on [55] – [64] of the decision of the Court in *Boehringer II* and, in particular, upon [63] and [64]. The judge considered that an account of profits was available for a breach of *BMS* condition (5) but that in assessing the amount of the financial remedy he was required to consider the extent of the damage to the claimants caused by Medik's infringement and the principle of proportionality in all the circumstances of the case. The correct amount was one which was both proportionate and also an effective deterrent.

37. The judge put it this way at [61]:

"What criteria are to be used in order to determine whether the outcome is one which achieves those objectives? The answer is to have regard to proportionality and the extent of the damage to the proprietor caused by the infringement. I believe the decision the Court reached was that the amount of the financial remedy depends on all the facts and circumstances. Giving the proprietor the right to claim the remedy on the same basis as if the goods were spurious is not wrong "in itself". A proprietor may be able to justify a claim like that. However the facts may not justify it."

38. The judge then proceeded to elaborate upon the relevant circumstances and explained that they would include the reasons why the goods were infringing, whether other *BMS* conditions were breached, any impact on the trade mark owner's business having regard to the purpose of *BMS* condition (5), the knowledge of the trade mark owner and, indeed, all the other circumstances of the case. He summarised the position at [67] – [69]:

"67. The upshot of the Court's judgment in *Boehringer II* is that, in assessing the amount of the financial remedy, the result may turn out to be just the same as the one

which would be arrived at if the goods were spurious but on the other hand it may not be. That is what paragraph 63 is getting at. If the Court of Justice had decided that the assessment of the amount of the financial remedy in this sort of case was always going to be precisely the same as the case in which the goods were spurious, they would have said so. It could have been stated in very short and simple terms. It was not stated that way.

68. Pulling this together, the approach I should adopt is the following:

- i) Assess the account on normal basis under English law;
- ii) Consider the extent of damage caused to the proprietor by the infringement and the issue of proportionality, in all the circumstances of the case;
- iii) Decide what final sum should be awarded having regard both to the sum assessed on the account at step (i), and the factors considered at step (ii).

69. The outcome may be that the sum awarded is the sum produced at step (i). That would be the same as the outcome if the goods were spurious and it may well be justified in a given case. Equally however the outcome may be a lesser sum. It is unlikely that the result will produce a token or nominal account since that would not be an effective remedy or sufficient deterrent.”

39. The judge then followed the three step approach he had set for himself and first, assessed the account on the conventional basis, taking into account allowable costs and the number of infringing products sold. These are matters to which I must return.

40. Second, the judge considered the extent of the damage caused to the claimants by the infringement and the issue of proportionality in all circumstances of the case. In this regard he found (at [119]) that if the infringing sales of repackaged products had not taken place the claimants would have earned profits at least comparable to, if not greater than, the gross profits earned by Medik. He also accepted (at [120]) that the claimants had not suffered any damage relating to the purposes for which *BMS* condition (5) was provided. Further, he found there was no evidence of any problem of counterfeiting which had been affected one way or the other by the failure to give notice. Moreover, the account was based only on a breach of *BMS* condition (5) and no other *BMS* conditions. Then (at [121]) the judge noted his earlier finding that the claimants knew of Medik’s repackaging and re-labelling activities.

41. Finally, the judge turned to his step (iii), namely the assessment of the sum that should be awarded having regard to the sum assessed in step (i), and the factors

considered at step (ii). He identified the factors that he considered relevant, weighed them and arrived at his conclusion at [128] – [129]:

“128. Factors tending to a lower fraction are: the fact that the infringement arises only from a breach of BMS (5), the claimants’ knowledge in this case and the lack of any impact on the purposes for which the BMS (5) condition was created. Factors tending to a higher fraction are: the need for the remedy to be effective and a sufficient deterrent, the fact that had the claimants made the sales which in this case were infringing sales, they would in all probability have earned more by way of profits themselves than Medik’s gross profit. Thus whatever sum I award I am tolerably sure that I am not giving the claimants more than they probably lost. Although that is not normally relevant on the English account of profits, it is hard to see how it is not at least a relevant consideration as a result of *Boehringer II*.

129. I will award the claimants half of Medik’s profits. That seems to me to be an effective deterrent to dissuade those engaged in repackaging and relabeling from not giving notice which accords with being proportionate to the reality of this case as a breach of a procedural requirement and nothing more.”

42. The accountants then carried out the necessary calculations and found that Medik had made net profits of £392,096 as result of its infringement of the claimants’ trade marks and accordingly the judge ordered Medik to pay to the claimants half this sum, namely £196,048 together with interest and costs.
43. On this appeal the claimants contend that the judge failed properly to apply the decision of the Court in *Boehringer II* and should not have found that the Court was seeking to (or could) lay down specific principles for the taking of an account under national law. They continue the judge was wrong to regard the failure to give notice as a breach of a procedural requirement and wrongly embarked upon an assessment of how the various circumstances of the case affected the net profits to which the claimants were entitled.
44. Medik, by way of cross appeal, also contends the judge erred in failing to have regard to the ruling in *Boehringer II*. It argues that the assessment of any financial remedy, whether by way of an inquiry as to damages or an account of profits, can only be carried out by reference to proportionality, damage to the trade mark proprietor and the need for any award to be a sufficient deterrent.
45. Medik continues that in assessing proportionality the judge failed to apply the principle that the remedy for a breach of *BMS* condition (5) should be the least onerous sanction which achieves the objectives of that notice requirement. Further, the judge erred in his assessment of relevant damage; he ought to have found that the relevant damage was that which related to the purpose of *BMS* condition (5); and the

claimants had suffered no relevant damage or loss of profits. It also says that the judge should have attached no weight to the claimants' statement of case on loss of profits and ought to have found the claimants had failed to establish a loss of profits on any basis at all.

46. Finally, Medik says the judge had insufficient regard to the fact that *BMS* condition (5) is procedural rather than substantive and has no Treaty basis. Further, he ought to have found that nothing done by Medik led to anything which *BMS* condition (5) is intended to prevent, and Medik required no deterrent whatever to prevent future breaches of this condition.
47. In assessing these rival submissions I think the starting point must be a consideration of the nature of the wrongful act. In my judgment it is clear from the decision of the Court of Justice in *Boehringer II*, particularly at [56]-[57] and [61]-[62], that a failure to give notice renders the importation and sale of the repackaged products an infringement. It is wrong to characterise the failure to give notice simply as a procedural deficiency. The Court has explained that repackaging is, in itself, prejudicial to the subject matter of the mark and may be prohibited unless both the repackaging is necessary to enable the marketing of the imported products and the legitimate interests of the trade mark owner are safeguarded. According to the established case law of the Court, the notice requirement is an important aspect of this protection because it enables the owner to check that the repackaging has not been carried out in such a way as to affect the condition of the products and that the presentation of the repackaged products is not such as to damage the reputation attaching to the trade mark. It also serves to protect the owner against counterfeiting. Medik failed to give notice. It has therefore performed acts prohibited by Article 5 of the Directive (and Article 9 of the Regulation). Further, the exhaustion principles in Article 7(1) of the Directive (and Article 13(1) of the Regulation) do not apply because the claimants had legitimate reasons within the meaning of Article 7(2) of the Directive (and Article 13(2) of the Regulation) to oppose the further commercialisation of the repackaged products.
48. That brings me to remedies. Directive 89/104/EEC (the predecessor of the Directive) was not intended to effect a complete harmonisation of the trade mark laws of Member States. Such is apparent from recitals (2), (4) and (10) of the Directive:
 - “(2) The trade mark laws applicable in the Member States before the entry into force of Directive 89/104/EEC contained disparities which may have impeded the free movement of goods and freedom to provide services and may have distorted competition within the common market. It was therefore necessary to approximate the laws of the Member States in order to ensure the proper functioning of the internal market.
 - ...
 - (4) It does not appear to be necessary to undertake full-scale approximation of the trade mark laws of the Member States. It will be sufficient if approximation is limited to those national provisions of law which

most directly affect the functioning of the internal market ...

...

- (10) It is fundamental in order to facilitate the free movement of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all the Member States. This should not, however, prevent the Member States from granting at their option extensive protection to those trade marks which have a reputation.”

49. The Trade Marks Act 1994 gave effect to Directive 89/104/EEC and completes the picture in relation to proceedings for infringement of a UK registered trade mark, providing in s.14:

“14 Action for infringement.

(1) An infringement of a registered trade mark is actionable by the proprietor of the trade mark.

(2) In an action for infringement all such relief by way of damages, injunctions, accounts or otherwise is available to him as is available in respect of the infringement of any other property right.”

50. The position in relation to Community trade marks is addressed by Articles 101-102 of the Regulation:

“Article 101

Applicable Law

- (1) The Community Trade mark courts shall apply the provisions of this Regulation.
- (2) On all matters not covered by this Regulation a Community trade mark court shall apply its national law, including its private international law.
- (3) Unless otherwise provided in this Regulation, a Community trade mark court shall apply the rules of procedure governing the same type of action relating to a national trade in the Member State in which the court is located.

Article 102

Sanctions

- (1) Where a Community trade mark court finds that the defendant has infringed or threatened to infringe a Community trade mark, it shall, unless there are special reasons for not doing so, issue an order prohibiting the defendant from proceeding with the acts which infringed or would infringe the Community trade mark. It shall also take such measures in accordance with its national law as are aimed at ensuring that this prohibition is complied with.
- (2) In all other respects the Community trade mark court shall apply the law of the Member State in which the acts of infringement were committed, including the private international law.”

51. Further, the Community Trade Mark Regulations 2006, SI 2008/1959 (as amended by SI 2008/1959) made under s.52 of the Act state, so far as relevant:

“Remedies in infringement proceedings

- 5.-(1) This regulation is without prejudice to the duties of the Community trade mark court under Article 98(1) of the Community Trade Mark Regulation.
- (2) In an action for infringement of a Community trade mark all such relief by way of damages, injunctions, accounts or otherwise is available to the proprietor of the Community trade mark as is available in respect of the infringement of any other property right.”

52. The legislation therefore provides that in an action for infringement of a UK registered trade mark or a Community trade mark, relief by way of damages or an account is available to the trade mark owner just as it would be in respect of the infringement of any other property right.
53. That brings me, therefore, to the financial remedies available in respect of infringement of registered trade mark as a matter of domestic law and the particular order made in this case.
54. A claimant who has succeeded in an action for infringement is entitled to damages as of right. If it seems the claimant may have suffered more than nominal damage then he will generally be entitled to an inquiry, the central purpose of which is to ascertain the extent of his losses and so restore him to the position he would have been in if the infringement had not been committed.
55. Alternatively, a successful claimant may seek an account of the profits made by the infringer. This is an equitable remedy and the court has a discretion whether to order it. It may be refused if, for example, the infringer was entirely innocent or the trade mark owner has delayed in bringing proceedings. The purpose of an account is very different from an inquiry as to damages. It is to deprive the infringer of the profits he has made by the infringement. He is treated as if he has conducted the infringing

business on behalf of the claimant. The losses the claimant has suffered by reason of the infringement are therefore not relevant.

56. It can be seen that the remedies of an inquiry as to damages and an account of profits proceed on very different bases. A successful claimant must therefore elect between them. Often, a successful claimant has insufficient information to make an informed decision as to which remedy he should pursue, and in those circumstances the court may order the defendant to provide limited disclosure and give the claimant a reasonable period of time thereafter in which to make his election.
57. In this case the consent order is in entirely conventional form. It recites that Medik has infringed the claimants' registered trade marks as, in my judgment, it was bound to do. It then records that notice has now been given of Medik's intention to import repackaged products and makes provision for the giving of notice in the future. The substantive order contains an injunction, an order for delivery up of infringing products and then continues:

- “(3) On or before 4.00pm on 5 July 2010 the Defendant shall serve on the Claimants a witness statement verified by a statement of truth signed by a director or an individual of equivalent authority setting out the following information:
- (a) the number of sales of all Infringing Products sold by the Defendant;
 - (b) the sums received or receivable relating to such sales; and
 - (c) the approximate cost of marking those sales together with a statement as to how that estimate was made.
- (4) The Claimants shall, within 56 days of receiving the information referred to in paragraph (3) above, elect whether to proceed with an inquiry as to damages or an account of profits in respect of the Infringing Products.
- (5) There shall be an inquiry as to damages, or if the Claimants so elect an account of profits, in relation to the Defendant's acts of trade mark infringement in respect of the Infringing Products (“the Claimants' Inquiry or Account”).
- (6) For the avoidance of doubt the disclosure to be given pursuant to paragraph (3) above and the Claimants' Inquiry or Account covers all products bearing one or more of the trade marks identified in the Particulars of Claim imported and repackaged by the Defendants between 1 July 2003 and 19 October 2009.
- (7) The Defendant shall pay the Claimants such sums as are found due upon the Claimants' Inquiry or Account.”

58. This order (including its recitals) is, I think, important. First, it reflects the acceptance by Medik that it has indeed infringed the claimants' registered trade marks. Second, the claimants were given an opportunity to elect between an inquiry as to damages or the taking of an account of profits. Third the court directed that, if the claimants so elected, there should be an account of the profits relating to Medik's acts of infringement and payment of the sums found due. Medik had the opportunity to resist an order for an account on equitable or other grounds, but did not take it. To the contrary, it consented to an order in this conventional form.
59. I recognise that principles of national law must, however, be compatible with Community law. Directive 2004/48/EC on the enforcement of intellectual property rights ("the Enforcement Directive") has as its object the approximation of national legislative systems for the enforcement of intellectual property rights. Article 13 deals with the assessment of damages:

"Damages

1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the rightholder damages appropriate to the actual prejudice suffered by him as a result of the infringement.

When the judicial authorities set the damages:

- (a) they 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.

2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established."

60. The scope of Article 13 is not entirely clear but I consider the Community legislature may well have used the term "damages" in a broad sense to include both

reimbursement of the right holder's lost profits and the return of profits made by the infringer, and that Member States must, through their judicial authorities, provide a right holder with a remedy against a defendant who has knowingly, or with reasonable grounds to know, engaged in an infringing activity, which remedy is appropriate to the prejudice suffered by the right holder and takes account of all relevant circumstances such as the profits the right holder has lost and the profits the infringer has made. Certainly I do not understand Article 13 to preclude the award of an account of the profits made by the infringer in such a case. Nor do I understand it to require a court undertaking an account of the profits made by the infringer to adjust that account by reference to the profits lost by the right holder. Indeed recital 26 expressly contemplates the payment to the right holder by an infringer of damages to compensate the right holder for his lost earnings or the profits the infringer has derived from his infringement:

“With a view to compensating for the prejudice suffered as a result of an infringement committed by an infringer who engaged in an activity in the knowledge, or with reasonable grounds for knowing, that it would give rise to such an infringement, the amount of damages awarded to the rightholder should take account of all appropriate aspects, such as loss of earnings incurred by the rightholder, or unfair profits made by the infringer and, where appropriate, any moral prejudice caused to the rightholder. As an alternative, for example where it would be difficult to determine the amount of the actual prejudice suffered, the amount of the damages might be derived from elements such as the royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question. The aim is not to introduce an obligation to provide for punitive damages but to allow for compensation based on an objective criterion while taking account of the expenses incurred by the rightholder, such as the costs of identification and research.”

61. Article 13 has been implemented by regulation 3 of the Intellectual Property (Enforcement) Regulations 2006 which reads:

“Assessment of damages

- (1) Where in an action for infringement of an intellectual property right the defendant knew, or had reasonable grounds to know, that he engaged in infringing activity, the damages awarded to the claimant shall be appropriate to the actual prejudice he suffered as a result of the infringement.
- (2) When awarding such damages –
 - (a) all appropriate aspects shall be taken into account, including in particular –

- (i) the negative economic consequences, including any lost profits, which the claimant has suffered, and any unfair profits made by the defendant; and
 - (ii) elements other than economic factors, including the moral prejudice caused to the claimant by the infringement; or
 - (b) where appropriate, they may be awarded on the basis of the royalties or fees which would have been due had the defendant obtained a licence.
 - (3) This regulation does not affect the operation of any enactment or rule of law relating to remedies for the infringement of intellectual property rights except that it is inconsistent with the provisions of this regulation.”
62. Plainly regulation 3 must be interpreted, so far as possible, in accordance with the terms of the Enforcement Directive. Moreover, regulation 3(3) makes clear that it does not affect the operation of any rule of law relating to remedies for infringement save to the extent it is inconsistent with the regulation. I do not believe that the remedy of an account of profits is inconsistent with the regulation or, perhaps more importantly, the Enforcement Directive.
63. More generally, it is well established that in the case of provisions of Community law having direct effect and conferring rights upon individuals, it is for domestic systems of Member States to ensure the protection of those rights. In the case of directives, Member States are required, within the freedom left to them by Article 288 of the Treaty on the Functioning of the European Union (ex Article 249 TEC), to choose the most appropriate forms and methods to ensure their effectiveness, in the light of their objectives: see, for example, Case-48/75 *Royer* [1976] ECR 497; Joined Cases C-58, 75, 112, 119, 123, 135, 140, 141 154 and 157/95 *Re Galloti and others* [1996] ECR I-4345.
64. Further, as the Court of Justice explained in Case C-212/04 *Adelener and others v Ellinikos Organismos Galaktos* [2006] 3 CMLR 30 at [94]-[95], where Community law does not lay down any specific sanctions should instances of abuse be established, it is incumbent on national authorities to adopt appropriate measures to deal with such a situation. They should be not only proportionate, but also a sufficient deterrent to ensure the relevant provisions are fully effective. Moreover, they should not be less favourable than those governing similar domestic situations (the principle of equivalence) or render impossible in practice or excessively difficult the exercise of the rights conferred by Community law (the principle of effectiveness).
65. These need little elaboration. I should, however, refer to Case C-343/09 *Afton Chemical Ltd v Secretary of State for Transport* [2011] 1 CMLR 16 to which we were taken by counsel for Medik. Here the Court of Justice affirmed that the principle of proportionality requires that measures adopted do not exceed the limits of what is necessary or appropriate in order to attain the objectives legitimately pursued by the

legislation in question; when there is a choice between several appropriate measures recourse must be had to the least onerous, and the disadvantages caused must not be disproportionate to the aims pursued. Nevertheless, a wide margin of assessment comes into play and the adoption of a particular measure will only breach the proportionality principle if it is clearly inappropriate or out of proportion having regard to the relevant objectives.

66. I believe these same principles find expression once again in the decision of the Court of Justice in *Boehringer II*. At [58]-[59], the Court explained that where, as here, Community law does not lay down any specific sanction for infringement, it is incumbent on national authorities to adopt appropriate measures which must be proportionate, but also sufficiently effective and a sufficient deterrent to ensure that the Directive (and, I would add, the Regulation) is fully effective.
67. Then, at [60]-[62], the Court made clear that the right of the trade mark owner to prevent the marketing of repackaged products in respect of which notice has not been given is no different from his right to prevent the marketing of spurious products. In both cases, the products ought not to have been put upon the market. Accordingly, the Court continued at [63], a national measure which confers a right to claim the same financial remedies in respect of both types of infringement is not in itself contrary to the principle of proportionality. The national court must determine the amount of compensation in the light of the relevant circumstances of each case.
68. This answer must, I think, be understood in the light of the general questions the Court was asked, namely, in a case of failure to give notice, whether the trade mark owner is entitled to claim damages or profits, whether the grant of any remedy is subject to the principle of proportionality and how compensation should be assessed. In responding to these questions, I do not understand the Court to have defined the only appropriate remedy; nor do I understand it to have specified the particular mechanism by which any financial award must be calculated. Since Community law does not lay down specific remedies, these are matters of national law. Indeed the Court made clear (at [59]) that it is incumbent on national authorities to adopt appropriate measures to deal with infringements, including infringements resulting from a failure to give notice. But of course such measures must be proportionate, and they must satisfy the principles of equivalence and effectiveness.
69. I turn then to consider whether the remedy of an account of profits satisfies these principles in the context of the present case. In my judgment it plainly does. As for proportionality, an account of profits does not compensate the trade mark owner for the losses he has suffered. It simply deprives the infringer of the profits he has made from an activity in which he should never have engaged. It therefore ensures the infringer does not benefit from his wrong, but it contains no element of punishment. Moreover, as an equitable remedy, it may be refused if for any reason it would produce an unjust result. But Medik deployed no such reason in this case. To the contrary, it consented to the order the terms of which I have set forth at [57] above. As for equivalence, an account of profits is a long standing and well established remedy for infringement of all kinds of intellectual property rights. As for effectiveness, an account is an effective deterrent because an infringer knows he will not retain any profits derived from his infringement.

70. I am reinforced in this view by the decision of the German Federal Supreme Court, the Bundesgerichtshof, in Case IZR 87/07 *Zoladex* dated 29 July 2009. So far as relevant to this appeal, the case concerned a claim for infringement of the registered trade mark Nolvadex by the importation and sale without notice of repackaged pharmaceuticals originally placed on the market elsewhere in the Community. The claimant, the trade mark owner, sought surrender of the defendant's entire profits. The Hamburg Lower Court and, on appeal, the Oberlandsgericht held the claimant was entitled to these profits. A further appeal to the Bundesgerichtshof was also dismissed, the court holding (at [17]) it was no answer to the claim that the defendant could easily have communicated the relevant notice and then sold the products without restriction. The court explained (at [19]) that recovery of the defendant's profits was not contrary to Community law:

“The transfer to the Plaintiff of the entire profit made by the Defendant from selling the drug “Nolvadex” is also not contrary to community law. The European Court of Justice gave its opinion in the “Boehringer/Swingward II” judgement (GRUR 2007, 586 marginal note 57 et seq.) on the question of whether the owner of a trademark used for a drug can demand financial compensation for an infringement by the parallel importer on the same basis as in a case of counterfeiting goods. In the present context too the arguments in marginal numbers 61 and 63 of the decision ... are of particular interest. Here the Court did not accept the opinion of Advocate-General Sharpston in her closing remarks on 6th April 2006, that the sanction in the case of a failure to provide advance information must be less punitive than in the case of an infringement of the other four repacking conditions (marginal number 76).”

71. In my judgment it follows that Judge Birss fell into error in adopting the three step approach set forth at [68] of his judgment. It was not permissible to embark on step (ii), an assessment of the damage caused to the claimants by the infringement and a general inquiry into the proportionality of the remedy by reference to the claimants' state of mind and whether the sales had some impact on the purposes underlying *BMS* condition (5). An assessment of the damage caused to the claimant forms no part of an account of the profits made by an infringer and the approach adopted by the judge constituted an illegitimate amalgamation of two quite different ways of assessing compensation. The damage suffered by the claimants was not relevant to the account which the judge ordered and to which Medik consented. The points taken by Medik as to the inadequacy of the claimants' case in relation to damage they had suffered therefore fall away. Moreover, for the reasons I have given, I believe an account of profits made by Medik was a proportionate remedy.
72. The judge also erred in embarking on step (iii) which involved an impermissible weighing of various factors, some of which the judge thought pointed to a higher award and some of which he thought pointed to a lower award. This approach forms no part of a conventional account of profits as a matter of domestic law and in my judgment is not required by the decision of the Court of Justice in *Boehringer II*.

73. For all these reasons I believe the judge fell into error in his approach to the taking of the account in this case. In my judgment the claimants were entitled to a conventional account of Medik's profits in respect of its infringing activities.

Assessment of net profits

74. This is a relatively short point, though an important one. It is clear that an account must be of the net profits made by the infringer. He is entitled to deduct any direct costs associated with the infringement and also any overheads to the extent they have been increased by the infringement or, put another way, any overheads that would not have been incurred but for the infringement. But the parties disagreed in relation to other general overheads including the cost of premises and general staff costs. It formed no part of Medik's case that these further costs would not have been incurred but for the infringement or that it had no surplus capacity in its business as a whole. Nevertheless, Medik contended it was entitled to deduct a portion of these general overheads, relying on the reasoning of Laddie J in *Celanese International Corp. v BP Chemicals Ltd* [1999] RPC 203.
75. Judge Birss agreed with Medik. He considered that a proper proportion of fixed, centrally incurred costs are deductible and, in any event, he was bound by Laddie J's decision in *Celanese*.
76. *Celanese* concerned an account of the profits made by the defendant (BP) by selling acetic acid made in two plants called A4 and A5. Laddie J explained (at [86]) he proposed to adopt the following principles in determining relevant costs:
- i) All costs shown to have nothing to do with the manufacture and sale of the A4 and A5 acetic acid should be ignored.
 - ii) All costs relating only to such manufacture and sale should be allowed in their entirety.
 - iii) All other costs, that is to say costs relating to the manufacture or sale of A4 and A5 acetic acid and other products as well should be divided between the former and the latter, and the part relating to A4 and A5 acetic acid should be allowed.
77. This statement of principle was uncontroversial as far as it went. But it did not explain how to determine which costs "related" to the manufacture and sale of the A4 and A5 acetic acid. Laddie J returned to this at [87]-[90] in explaining and then addressing the case advanced by the claimant (HC) that if no acid had been produced in A4 and A5, savings of £1.7 million would have been achieved and that these were the only general costs that should be allowed.
78. Laddie J rejected HC's case at [90]:
- "I do not accept HC's arguments. Take a case where a company has two separate products which cost the same to make and sell and which generate the same revenues. The company employs one salesman to sell both products. No doubt if the company had to stop making one product it would

continue to have to employ the salesman to sell the other and vice versa. On HC's "but for" approach, the cost of the salesman would not be allowable against the revenues of either product. The commercial reality is different. A company like BP tries to make use of the economies of scale. Certain costs are shared between a number of activities in the hope and expectation that centralising things such as support services will reduce the costs burden on each activity. The effect of such economies of scale is to increase the profitability of each activity. To take the example just given, the profitability of each product is enhanced because, instead of each having to pay the full costs of its own dedicated salesman, they share one salesman between them. The profitability of A4 and A5 acid is increased by BP not having to have separate services for those plants but sharing them with others in the Acetyls Business Unit. To allow HC to take all the benefits of such costs sharing by BP without taking into account the proper proportion of costs borne by the Unit would be unfair to BP and would wrongly increase the notional profits made on A4/A5."

79. In summary, Laddie J reasoned that sharing of costs allows businesses the opportunity to make use of economies of scale. Costs may be shared between different activities and so reduce the costs burden and increase the profitability of each of them. To allow HC to take the benefit of the costs sharing without taking into account the proper proportion of costs borne by the relevant business unit would be unfair to BP and wrongly increase the notional profits it had made.
80. A rather different analysis of the allowability of general costs is to be found in the decision of the High Court of Australia in *Dart Industries Inc. v Decor Corp. Pty. Ltd and anor.* [1994] FSR 567. The majority (Mason C.J., Deane, Dawson, Toohey JJ) explained that the purpose of the account is to strip the infringer of the profits he has made, not to punish him. Therefore, the exercise which must be undertaken is to isolate those costs which are attributable to the obtaining of the relevant profit from those which are not.
81. The majority then turned to the crucial question as to how to identify the overheads and other general costs attributable to the infringements and noted there was no evidence the defendants had unused or surplus capacity. There was, however, evidence that the infringing products were sold as an integral part of a consistent product range. It might therefore be inferred that, had the defendants not been engaged in the manufacture and sale of the infringing products, their capacity would have been taken up in the manufacture and sale of other products. Thus, the majority continued, the costs of manufacturing the infringing products might have included the cost of foregoing the profit on the manufacture and sale of some other products – a so called opportunity cost.
82. The majority then explained at pages 574-5:

“In calculating an account of profits, the defendant may not deduct the opportunity cost, that is, the profit forgone on the alternative products. But there would be real inequity if a

defendant were denied a deduction for the opportunity cost as well as being denied a deduction for the cost of the overheads which sustained the capacity that would have been utilised by an alternative product and that was in fact utilised by the infringing product. If both were denied, the defendant would be in a worse position than if it had made no use of the patented invention. The purpose of an account of profits is not to punish the defendant but to prevent its unjust enrichment.

Where the defendant has forgone the opportunity to manufacture and sell alternative products it will ordinarily be appropriate to attribute to the infringing product a proportion of those general overheads which would have sustained the opportunity. On the other hand, if no opportunity was forgone, and the overheads involved were costs which would have incurred in any event, then it would not be appropriate to attribute the overheads to the infringing product. Otherwise the defendant would be in a better position than it would have been in if it had not infringed. It is not relevant that the product could not have been manufactured and sold without these overheads. Nor is it relevant that absorption method accounting would attribute a proportion of the overheads to the infringing product. The equitable principle of an account of profits is not to compensate the plaintiff, nor to fix a fair price for the infringing product, but to prevent the unjust enrichment of the defendant.

Of course, further possibilities may in some cases be open on the evidence. Overhead costs might have been increased by the manufacture and sale of the infringing product, or overhead costs might have been reduced had the infringing product not been produced. In either case it may be appropriate to attribute the difference in overhead costs to the infringing product.”

83. The majority then dealt with onus, holding that the burden lay on the defendants to provide a reasonably acceptable basis for allocation. The relevant facts were likely to be within their knowledge and so they had to establish that the overheads in any particular category were properly attributable to the manufacture or sale of the infringing products.

84. The majority concluded at pages 578-9:

“Whether Decor and Rian should succeed in their contentions depends upon whether, as a matter of fact and substance, the overheads which they seek to have deducted are attributable to the manufacture and sale of the infringing product. In arriving at an answer, the court must consider such questions as whether the overheads in any particular category were increased by the manufacture or sale of the product, whether they represent costs which would have been reduced or would have been incurred in any event, and whether they were surplus capacity or would, in

the absence of the infringing product, have been used in the manufacture or sale of other products. Dealing with the last of these questions may require the use of the concept of opportunity cost. If any of the categories are to be brought into account, the proportion to be allocated to the infringing product must be determined and it is here that approximation rather than precision may be necessary. But such an approach has long been accepted. As was said in *Colburn v Simms* (1843) 2 Hare 543 at 560; 67 ER 224 at 231:

The court, by the account, as the nearest approximation which it can make to justice, takes from the wrongdoer all the profits he has made by his piracy, and gives them to the party who has been wronged.

It follows that we consider that King J. was in error in directing that “no part of general overhead costs is allowable as a deduction” and that the Full Court was substantially correct in directing, as it did, that “the appellants are at liberty to show that various categories of overhead contributed to the obtaining of the relevant profit, and to show how and in what proportion they should be allocated in the taking of the account of profits”. But it would be better, we think, if the word “contributed” were replaced by the words “are attributable”.

85. I find this reasoning persuasive and am satisfied that it is not permissible for a defendant simply to allocate a proportion of its general overheads to an infringing activity and in so far as Laddie J decided to the contrary, I disagree with him. The defendant must show that the relevant overheads are properly attributable to that activity. All will depend upon the facts and circumstances of the case. For example, it may be relevant to consider whether a defendant has surplus capacity, whether the infringing activity was an additional line to an established business and whether the defendant’s overheads have been increased as a result of the infringing activity or whether its overheads would have been lower had it not engaged in that activity.
86. We heard little argument on the question of opportunity costs and they have formed no part of the case advanced by either side so I need express no final conclusion upon them. Nevertheless, I believe that if the defendant’s business is not running to capacity, the defendant has not foregone an opportunity to make and sell other non infringing products, and the defendant’s general overheads have not been increased by reason of the infringement and would have been incurred in any event, then to allow it to attribute such overheads, or a proportion of them, to the infringements would be to allow it to profit from its unlawful activity. I believe such a result would not be just and would undermine the purpose of the account.
87. In this case Medik has not attempted to prove its business was running to capacity or that, but for the infringement, it would have sold some other products. Moreover, Medik has not attempted to prove that the relevant general overheads increased as a result of its infringement or that those overheads would have been lower if it had not infringed. In my judgment it follows that the judge fell into error on this issue too. He

ought not to have allowed Medik to deduct a proportion of its general overheads without evidence that such overheads were properly attributable to the importation and sale of the infringing products, and that he did not have.

The number of infringing products

88. As I have said, the judge found that Medik imported and sold 3,275 Hollister repackaged products and 54,936 Dansac repackaged products generating a gross profit of £445,864. The claimants say that this is a substantial underestimate and that the true figure is 20-25% higher.
89. Disclosure of the number of infringing products sold by Medik was provided by Mr Badiani, its Managing Director, in his first and second witness statements dated 2 July 2010 and 15 April 2011. In addition, Medik provided documentary disclosure on 11 March 2011.
90. The claimants made various requests for further information and disclosure and, on 13 May 2011, Medik explained how its procedures worked. In summary, when products were repackaged, Medik's warehouse staff completed "process instruction forms" as an internal method of quality control and to ensure that the relevant staff followed Medik's procedures. These forms contained, inter alia, details of the product codes. They were kept for two months and then discarded. Each month the information on the forms was, however, transferred into "assembly reports". In addition, all Medik's sales were recorded on its "Pegasus" computer system. This contained details of product codes and identified the customers to whom sales were made.
91. Medik claimed it was able to calculate its sales of repackaged products using the product codes taken from the assembly reports, its knowledge of the names of customers who had purchased repackaged products and the sales information contained in the Pegasus system. In addition, Medik had a purchase ledger which purportedly contained details of all products it had purchased.
92. Each side instructed an expert and attention was focussed on sales of repackaged Dansac products. The claimants' expert, Mr Geale, was concerned about gaps in the assembly reports which led him to doubt the sales figure of 54,936 repackaged Dansac products admitted by Medik. He also doubted the figure of 63,400 for purchases of Dansac products shown in Medik's purchase ledger, calculating that Medik had purchased 66,823 such products. There was, however, no dispute as to the gross profit made by Medik on each unit sold.
93. Mr Geale served his report on 7 July 2011 in which he concluded that the gross profits made by Medik ranged from £445,863 (using Medik's figures for sales of Hollister and Dansac products) to £546,150 (using Mr Geale's upper estimate of Medik's purchases of Hollister and Dansac products).
94. Mr Badiani did not give evidence at the trial so, not surprisingly, the judge attached particular weight to the evidence given by Mr Geale, based as it was upon the disclosure given by Medik and Mr Geale's own inspection of Medik's documents and records. The claimants advanced two main arguments in support of their contention that the judge should accept the higher figure: first, there were gaps in the assembly reports; second, on attending Medik's premises, Mr Geale chose a limited number of

product codes and followed through the paperwork for all products having those codes. He found they had been supplied to only two customers, one for Dansac products and one for Hollister products. The claimants argued that Medik had nine customers and so it was very unlikely the selected products had only been supplied to two of them. It followed, the claimants argued, Medik had not provided disclosure of the full extent of its infringing activities.

95. The judge dealt with these arguments and arrived at his conclusions at [105]-[108] of his judgment:

“105. Medik contend they have disclosed all the sales of relevant goods to the claimants. The claimants do not accept that. Documents called Assembly Reports were disclosed and are an accurate record of the volume of relabelling and repackaging for the periods they cover. However there are gaps. For the relevant period of roughly four years, gaps for more than 700 days exist. The claimants submit that it is inconceivable that there was no relabelling of relevant products in the missing periods. Medik say this is all wrong. They have disclosed the relevant reports. No relevant activity took place in the gap.

106. Mr Geale was permitted to carry out a checking process for certain products. He found nothing missing or wrong in the materials he was checking but the nature of the checking process means that he would not have been able to tell if other repackaging of different relevant products had taken place. One thing Mr Geale did find was that for the products he checked (3 Hollister and 8 Dansac) there was only one purchaser of Dansac products and one for Hollister. Mr Fernando pointed out that in a letter of 21st October Medik’s solicitors had indicated they had 9 customers and submitted it was incredibly unlikely that the products chosen for the sample just happened to be products bought by only one customer. His point was to show that there must be more going on that was catered for in the disclosed documents.

107. There is no doubt that the numbers of relevant products bought by Medik is higher than the number repackaged. The difference can be seen by its effect on the gross profit figures. The claimants contend, based on number of products purchased, that the figure should be £546,150 whereas, based on the Assembly Reports but otherwise on the same basis the figure is £445,864. It may be noted that although it can be said that Assembly Reports for half the period are missing, the difference in numbers is about 20-25%.

108. Medik say the difference is simply because many products were sold without repackaging and are therefore not infringing. The claimants contend that in the absence of a proper explanation for the gaps in the Assembly Reports, I should infer that all the products purchased were in fact repackaged and should be accounted for.
109. Mr Badiani was the witness whose evidence would have verified the numbers of products in question but for the reasons I have explained, he did not give evidence. If I had heard from Mr Badiani then this is an issue on which his credibility as a witness may have played a part.
110. However on the other hand I am quite satisfied that Medik did sell non-repackaged versions of these goods. Thus to simply use the figures for goods purchased would certainly produce a number which was too high. It seems to me that, unverified though they are, I have no other realistic option but to accept the figures contended for by Medik. I will do so.”
96. On this appeal the claimants submit the judge erred in making these findings. First, they say that the judge overlooked his own earlier finding that Mr Badiani’s statements did not stand as evidence.
97. I am unable to accept this submission. It is clear from the passages of the judgment set forth at [95] above that the judge based his conclusion upon his assessment of Mr Geale’s evidence and the fact that not all of the claimants’ products sold by Medik were repackaged. Moreover, in the course of his cross examination Mr Geale accepted that Medik was able to identify sales of repackaged products from the Pegasus system and that on all the information he had, there was no reason to doubt that Medik’s figures were accurate.
98. Second, the claimants contend that the judge not only failed to have regard to his own finding that Mr Badiani’s evidence did not stand as evidence but also wrongly felt he had no realistic option but to accept Medik’s case. The judge ought to have taken Mr Geale’s evidence as his starting point. Further, the claimants continue, Mr Geale’s estimate of the number of infringements was based upon an extrapolation from the assembly reports which Mr Geale capped. Moreover, Medik never disclosed the total number of the claimants’ products which it had bought and sold, and the sales and purchase figures it provided were only of infringements.
99. I am satisfied these points have no substance. The judge did not rely upon Mr Badiani’s evidence. The total numbers of the claimants’ products of the relevant types purchased by Medik were derivable from the purchase ledger. As I have said, not all of these products were sold by Medik in repackaged form. So the judge had no alternative but to reject the claimants’ case that Medik repackaged all the claimants’ products it bought and, having regard to Mr Geale’s evidence to which I have referred, accepted Medik’s case as to the number of repackaged products it had sold.

100. Moreover, I am unable to accept the claimants' submission that Medik never disclosed the total number of the claimants' products it had bought and sold, and that the sales figures it provided were only of infringements. The claimants point in this regard to an alleged discrepancy between the purchase ledger which shows purchases of 63,460 relevant Dansac products and a statement by Medik that it had sold 75,235 Dansac products. But this difference is explained by the fact that the latter figure represents Medik's sales of *all* types of Dansac products, not just those the subject of these proceedings. The claimants also say it is inconceivable that Medik only supplied infringing products to two customers. However, this is based upon a misconception. Medik said it had only two customers for the particular eight sample product types selected by Mr Geale. Finally, Mr Geale noted that for some particular product codes Medik appeared to have sold more products than it had bought. But he accepted that this could be accounted for by Medik holding high amounts of stock for those types of product at the start of the relevant period. Moreover, and in any event, Mr Geale uplifted the figure of 63,460 units to 66,823 units, and this higher figure was used by him to calculate the upper limit of Medik's gross profits - the top of the range from which the judge worked.
101. Third, the claimants say the judge ought to have found that Medik had failed to verify the figures of repackaged products for which it contended and so he ought to have found for the claimants. This, it seems to me, is simply another way of putting the first and second submissions and I reject it for like reasons. Medik's sales figures were taken from its Pegasus system and Mr Geale had no substantive reason to doubt them. Moreover, Medik sold both repackaged and non-repackaged products and so the number of the claimants' products it bought did not represent the number of repackaged products it sold.
102. Finally, the claimants argue that the judge fell into error in his analysis of the missing assembly reports. They say that these were the only accurate records of repackaging and a full set of assembly reports was never disclosed.
103. The fallacy in this argument is that the assembly reports were only used to identify the relevant product codes. Medik was able to use these codes and its knowledge of which customers had bought repackaged products to calculate the number of repackaged products it had sold, as Mr Geale accepted.
104. In the course of the appeal hearing and by further written submissions filed after its conclusion, the claimants have referred us to a series of detailed evidence references, effectively attempting to re-argue the whole case on this issue. However, the judge had the benefit of hearing all of this evidence, evaluated it and made his finding of fact. For the reasons I have given, I am not persuaded he fell into error.

Conclusion

105. In my judgment
- i) the judge erred in his approach to the taking of the account; the claimants were entitled to an account of the net profits made by Medik from its infringement;
 - ii) the judge erred in his approach to the calculation of net profits; Medik did not establish that it was entitled to deduct a portion of its general overheads;

iii) there is no basis for challenging the judge's finding as to the number of infringing products sold by Medik.

106. I would therefore allow the claimants' appeal to the extent I have explained and dismiss Medik's cross appeal.

Mr Justice Peter Smith:

107. I agree.

Lord Justice Jackson:

108. I also agree.