



Neutral Citation Number: [2018] EWHC 664 (Pat)

Case No: HP-2015-004574

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INTELLECTUAL PROPERTY LIST (ChD)
PATENTS COURT

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

Date: 27/03/2018

Before :

HIS HONOUR JUDGE HACON
(Sitting as a High Court Judge)

Between :

EDWARDS LIFESCIENCES LLC	<u>Claimant</u>
- and -	
BOSTON SCIENTIFIC SCIMED, INC	<u>Defendant</u>
- and -	
(1) EDWARDS LIFESCIENCES SA	<u>Fourth Party</u>
(2) EDWARDS LIFESCIENCES LIMITED	<u>Seventh Party</u>
(3) EDWARDS LIFESCIENCES (SINGAPORE)	
PTE LIMITED	<u>Eighth Party</u>

Piers Acland QC (instructed by **Powell Gilbert LLP**) for the **Claimant** and **Fourth, Seventh and Eighth Parties**
Hugo Cuddigan QC and **Kathryn Pickard** (instructed by **Simmons & Simmons LLP**) for the **Defendant**

Hearing date: 21 March 2018

Approved Judgment

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

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HIS HONOUR JUDGE HACON

Judge Hacon :

Introduction

1. In the judgment in this action, handed down on 3 March 2017, I found that the Fourth Party (“ELSA”) and the Seventh Party (“ELL”) had infringed a patent owned by the Defendant (“Boston”). On 24 March 2017 I made an order that, among other things, ELSA and ELL should give *Island Records* disclosure and that 28 days thereafter Boston should elect between an inquiry as to damages or an account of profits.
2. A year later Boston has still not made its election. In this application Boston seeks to resolve the manner in which it is entitled to pursue its claim for monetary relief. ELSA, ELL, the Claimant (“LLC”) and the Eighth Party (“ELS”) object to Boston’s proposals. I will refer to the four Edwards companies collectively as “Edwards”.

Edwards’ profits

3. Boston has succeeded against ELSA and ELL because of their infringing sales in the UK. Boston is entitled to claim the profits made on those sales should it elect for an account. However the *Island Records* disclosure has revealed that because of arrangements between ELSA, ELL and other companies in the Edwards group, part of those profits have been retained elsewhere. Following disclosure given pursuant to the Order in March 2017 and subsequent Orders by Henry Carr J and Arnold J in June and November 2017 respectively, it has emerged that the larger portion of the profits have in effect gone into the accounts of LLC and ELS.
4. Boston implied at one point in exchanges between the parties that this intra-group transfer of profits might have been illegal. Hugo Cuddigan QC, who appeared with Kathryn Pickard for Boston, disclaimed any such allegation. I will assume that everything done between the Edwards companies was entirely lawful and I should add that I have been given no reason to doubt it.
5. Boston says it is entitled to all the profits derived from sales of infringing products, those held by LLC and ELS as well as those made by the infringers, ELSA and ELL.

Boston’s proposed way forward

6. Boston’s proposed way forward is to be allowed to advance three alternative cases at the trial on the quantum of monetary relief.
7. The first would be that as a matter of law LLC and ELS must disgorge their net profits derived from the infringing sales in the UK. Boston did not set out its argument on the law since it sought only permission to advance an argument at trial. However, I was given an outline of the end result Boston has in mind. The starting point would be the total revenue earned from the infringing sales. From this would be deducted the cost incurred by the Edwards companies in manufacturing the products, such cost to include a reasonable manufacturing profit. This would give a total gross profit from the infringements. Then, as I understand it, each of ELSA, ELL, LLC and ELS would be taken in turn. From the gross profit each accrued would be deducted directly attributable costs and permissible overheads according to the principles set

out by the Court of Appeal in *OOO Abbott v Design & Display Ltd* [2016] EWCA Civ 95; [2016] FSR 27. There would have to be an apportionment of those profits because the inventive concept of the patent infringed is embodied in only a part of the products sold. To the sum derived from apportionment would be added profits from conveyed sales.

8. The key point, though, is that Boston would argue that as a matter of law this should be done in relation to all Edwards companies that profited, namely LLC and ELS as well as ELSA and ELL.
9. Boston's second case would be an alternative to the first. It would be that LLC and ELS were joint tortfeasors in relation to the infringements found against ELSA and ELL, presumably applying the law on joint tortfeasance explained by the Supreme Court in *Fish & Fish Ltd v Sea Shepherd UK* [2015] UKSC 10; [2015] AC 1229.
10. Pausing there, Edwards do not object to Boston running these alternative cases at the trial of an account. But they jib at Boston adding a proposed third alternative case.
11. Boston worries that neither of its first two cases may succeed – without of course conceding that as a likelihood. Boston therefore wants a fall-back. If the court were to decide that Boston was entitled to only the relevant net profits of ELSA and ELL, Boston should be able instead to claim damages. Boston was willing to state that such a claim would be on the user principle, i.e. the royalties that would have been payable under a hypothetical licence granted by Boston, in an arm's length agreement between willing licensor and willing licensee, allowing Edwards lawfully to carry out the acts found to infringe.
12. In other words, Boston wants the trial on quantum of monetary relief to go ahead in the form of a hybrid: an account of profits and inquiry as to damages. Once the results are in, Boston would elect between the two, obviously selecting the one which yields the greater sum in the judgment of the court.

Boston's arguments

13. Boston's overall argument was that defendants which are part of a group should not be able to evade their responsibility to pay for their infringements by transferring their profits to other group companies. If that were permitted, there would be nothing to stop companies from shifting away the entirety of their profits and thereby in effect limiting a successful claimant to an inquiry as to damages. Parliament's intention to allow a patentee the option of an account of profits could then be easily defeated.
14. Mr Cuddigan referred to the relevant section of the Patents Act 1977:

“61 (1) *Subject to the following provisions of this Part of this Act, civil proceedings may be brought in the court by the proprietor of a patent in respect of any act alleged to infringe the patent and (without prejudice to any other jurisdiction of the court) in those proceedings a claim may be made —*

...

(c) *for damages in respect of the infringement;*

(d) *for an account of the profits derived by him from the infringement;*

...

(2) *The court shall not, in respect of the same infringement, both award the proprietor of a patent damages and order that he shall be given an account of the profits.”*

15. Mr Cuddigan submitted that s.61(2) prohibited a court from making a final order of monetary compensation which consisted of an award of damages and the infringer’s profits. But it did not prevent a joint inquiry and account being conducted and thereby the patentee’s election being postponed until both had been concluded.
16. He argued that there was authority for the conduct of a joint inquiry and account. In *The Electric Furnace Co v Selas Corporation of America* [1987] RPC 23, the first defendant, Selas, sought to have an order giving the plaintiff leave to serve a writ outside the jurisdiction set aside. In the course of his judgment Slade LJ, with whom Croom-Johnson LJ and Sir John Megaw agreed, said this (at p.33, lines 35-39):
- “As the writ makes plain, they are seeking an account of profits as an alternative remedy to damages, against both defendants. If the action proceeds to trial it would, I think, be open to them to pursue a remedy by way of damages against one [of] the defendants, and a remedy by way of an account of profits against the other. No authority has been cited to us which suggests the contrary.”
17. Mr Cuddigan said that to the extent that the judgment of Pumfrey J in *Spring Form Inc v Toy Brokers Ltd* [2002] FSR 17 might be taken as authority for the contrary view (see in particular paragraphs 24 to 26) that judgment turned on its particular facts. It did not establish an absolute rule against a joint inquiry and account. He referred me to a paper by Professor Lionel Bently and Charles Mitchell, *Combining Money Awards for Patent Infringement, Spring Form v Toy Brokers* 11 RLR 79, 92 (2003), which he said rightly criticised Pumfrey J’s judgment, or at least any over-interpretation of it.
18. Mr Cuddigan further submitted that in practice the courts are liable regularly to assess an award of damages together with an award of unfair profits pursuant to Directive 2004/48/EC (“the Enforcement Directive”), referring to *Absolute Lofts South West London Ltd v Artisan Home Improvements Ltd* [2015] EWHC 2608 (IPWC); [2017] ECDR 6, by way of example. This dual approach taken in *Absolute Lofts* was akin to what Boston was seeking in the present case.
19. Finally, Mr Cuddigan said that Boston was asking for no more than its entitlement as explained by Lightman J in *Island Records Ltd v Tring International plc* [1996] 1 WLR 1256 itself, at 1258-9:

“A right of election, if it is to be meaningful, and not a mere gamble, must embrace the right to readily available information as to his likely entitlement in

case of both the two available remedies. It is quite unreasonable to require the plaintiff to speculate totally in the dark as to whether or not the sum recoverable by way of damages will exceed that recoverable under an account of profits.”

Edwards’ arguments

20. Edwards’ first two arguments were procedural. Mr Acland QC, who appeared for Edwards, said that the delay in Boston making its election and now making this application was prejudicial to Edwards. Secondly, the application was inconsistent with three earlier orders of the court, as Boston tacitly admitted. Those earlier orders required Boston to elect between an inquiry or account by a stated deadline, which in each case had been missed. The orders should not be varied without a material change in circumstance – there was none – and Boston should now be required to comply, albeit out of time. I was referred to *Tibbles v SIG plc* [2012] EWCA Civ 518; [2012] 1 WLR 2591, particularly the judgment of Rix LJ at [39].
21. Edwards’ third argument was that the law stated by Lightman J in *Island Records* and since developed was designed to put successful claimants in a position to make an informed election between an inquiry and an account (see *Island Records* at 1258). It was not intended to give claimants *certainty* as to which of them was the most advantageous before making the election, which is what Boston was after.
22. Finally, running a joint inquiry and account would considerably increase the cost of the trial on monetary relief. Richard Boulton, an accountant retained by Edwards’ solicitors, estimated that the cost of running a joint inquiry and account would be 175% of the cost of running one of them. Timothy Powell of Edwards’ solicitors thought that Edwards’ costs of the account alone would amount to £1.5m to £2m, so the increase contemplated just on Edwards’ side is around £1.25m to £1.5m.

Discussion

23. I accept Mr Cuddigan’s argument that there is no statutory or common law bar to there being a joint inquiry and account. Mr Acland agreed. It seems to me that, subject to Edwards’ arguments on delay and enforcing existing orders, this is purely a question of case management.
24. The arguments on delay and whether Boston is entitled to vary three existing orders of the court to make an election are related. I was shown a transcript of the hearing before Arnold J on 8 November 2017. He was informed that Boston had learnt for the first time that some of the profits from infringement had reached ELS, a Singaporean company. This had been disclosed in a witness statement from Mr Powell of Edwards’ solicitors served in October 2017. Edwards had offered to provide *Island Records* disclosure from ELS, although that had not yet been done. One of the applications made was the one now before me: whether Boston is entitled to a joint inquiry and account. Arnold J adjourned that application on the ground that it was premature; it might not be necessary, depending on the information to be provided by ELS.

25. As Arnold J indicated and as both parties appear to have accepted, Boston was not in a position to pursue the present application until after it had received the information from ELS. This it did by an application notice dated 26 January 2018.
26. Mr Acland argued that by the time of the November hearing Boston knew that profits were held by the four relevant companies, which is all it needed to know. I am not sure about that. How much ELS had retained may have influenced whether Boston would seek to run the argument that LLC and ELS should pay out their profits (aside from any liability as joint tortfeasors). Arnold J appears to have taken that view and Edwards did not at that time demur.
27. I do not regard that as delay such as to deprive Boston of the opportunity now to make the application. There is always at least some prejudice in delay but none here of a serious nature.
28. I also take the view that the information eventually supplied by Edwards, which has collectively identified which companies have accrued profits from the infringing sales and how much profit in each case, is a material change in circumstance sufficient to warrant any necessary variation of earlier orders requiring Boston to make its election between an inquiry and account by the stated deadlines.
29. I turn, then, to the central question of case management, beginning with the potential extra cost of conducting a joint inquiry and account. Mr Cuddigan took me to a confidential annex to Boston's draft Points of Claim. It stated the collective profit of the relevant Edwards companies said to have been derived from the infringing sales, a very large sum. Mr Cuddigan argued that the extra cost of a joint inquiry and account would be minimal. But even if it were anything like the sum Mr Powell and Mr Boulton have estimated, it was dwarfed by the sum at stake.
30. I doubt very much that the cost of an inquiry plus account would be minimally greater than the cost of either alone. As Mr Cuddigan was keen to show me, the sums at stake are large. The parties have conducted this litigation with the aim of taking every available point, an approach they are entitled to take. I place no great reliance on the figures for the additional cost provided by Edwards but I am satisfied that Boston's proposal would add significantly to the costs and to the time taken by the court in deciding monetary relief.
31. There is always an inherent risk in electing to take an account of profits. The defendant may have run his business as loss-leader, or not competently, or it may be that for some other reason, as it turns out on the evidence, the defendant has made little or no profit. It is well established that a claimant in an account must take the defendant as he finds him, see *Dart Industries Inc v Decor Corp. Pty. Ltd* [1994] FSR 567, at 590 in the Australian High Court and *Celanese International Corp. v BP Chemicals Ltd* [1999] RPC 203, at [42].
32. Parliament, when it enacted the Patents Act 1977, must be taken to have assumed that while the possibility of an account of profits was made available to successful patentees under s.61, that option was completely at the patentees' risk. Since then, beginning with *Island Records*, the courts have used case management powers to ameliorate the risk. Before *Island Records* the problem for the patentee was that it was being required to make its election without relevant information held by the

infringer. The solution was to require the infringer to supply in advance of the election headline items of financial information.

33. Boston now seeks a major addition to the exercise of the court's case management powers. The problem is not that Boston lacks information. It is that it cannot predict the outcome of a stage in this litigation. Part of this is due to an uncertainty in the law, but the overall point is that Boston is not certain whether its first case, or failing that its second, will succeed. Boston's suggested solution necessarily has nothing to do with obtaining information from the infringers. It is instead to run an account and inquiry in parallel and then to see which one works out better.
34. Notwithstanding what Slade LJ said in *The Electric Furnace*, Mr Cuddigan did not point to a single instance in which a court, whether in a patent or any other type of action, had ordered a joint inquiry and account. That does not surprise me.
35. I do not regard an inquiry in which unfair profits under the Enforcement Directive are considered as the same thing at all. As I made clear in *Henderson v All Around The World Recordings Ltd* [2014] EWHC 3087 (IPEC); [2015] IP & T 335, a claim to unfair profits under the Directive is not what an English lawyer would recognise as an inquiry as to damages (at [72] to [78]).
36. Since the issue raised is a question of case management, it could be that in some very unusual circumstances it may be appropriate to order a joint inquiry and account. But not in this case, with the likely significant increase in court time and cost that a hybrid trial would entail. Boston is not the first litigant in a dilemma because the outcome of the litigation is in doubt and it will not be the last. It has the funds to access as much legal advice as it can take. In my view, it must now consider that advice and make its election.

Preliminary Issue

37. Mr Cuddigan submitted that if I were not prepared to order a joint inquiry and account, I should instead order the hearing of a preliminary issue on the law regarding the obligation on the part of LLC and ELS to pay over their profits derived from the sale of infringing products. That would be an alternative way of safeguarding Boston's position.
38. There have been many warnings by courts about the consequences of ordering the hearing of a preliminary point, see for example *Steele v Steele* [2001] C.P. Rep. 106. I think this case provides a good example of when it is not a good idea. The issue which Boston would like to be decided is not a pure question of law. Mr Cuddigan suggested that the issue to be decided would be this:

“Whether transfer pricing or profit shifting within a group of companies comprises a legitimate deduction for the purpose of an account of profits.”

39. I do not see how that issue could be resolved except in the context of the particular facts of the present proceedings. If Boston were to succeed, it would still be necessary to go on with the account of profits. If Boston were not to succeed, presumably it would seek an account or inquiry, maintaining the allegation of joint tortfeasance. The trial of the preliminary point would only serve to delay the overall

outcome and increase both costs and the use of court time. I therefore do not order the trial of a preliminary issue.

Conclusion

40. Boston's application for a joint inquiry and account and for the trial of a preliminary point are both dismissed. I will hear submissions on appropriate directions to take matters forward.