11 South Square

Monetary remedies in IP claims

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PART ONE

Damages

Heads of loss, general principles

DAMAGES

Three heads of damage

1

Lost profits

The right holder exploits the right itself and would have made more profit had there been no infringement.

2

Going rate

The right holder grants licenses at an established price. Rare in contested cases - think unpaid PRS or PPL royalties.

3

Licence fee

Neither (1) nor (2) applies. Also called "user principle", "negotiating", "licence fee", or "reasonable royalty" damages.

Most modern inquiries invovle heads 1 and 3.

General Tire v Firestone [1975] 1 WLR 819 (HL)

LOSS OF PROFITS

Counterfactual profit

What profit would the claimant have made **but for** the infringement?

—

Factual profit

What did the claimant in fact make?

=

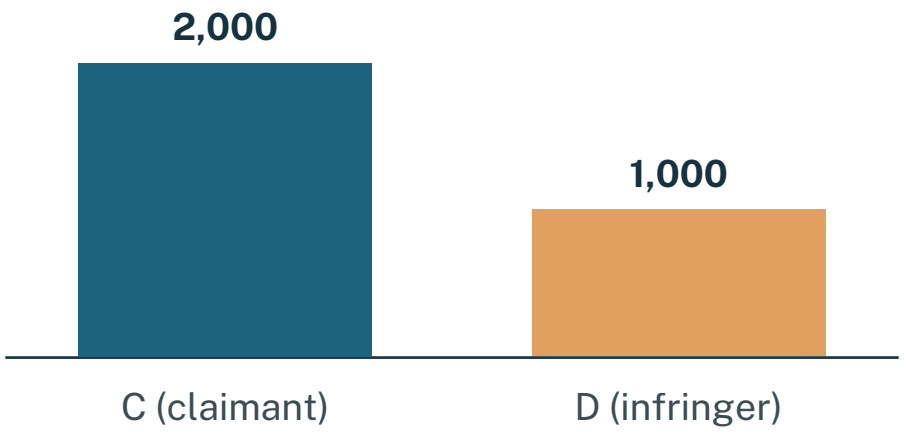
Lost profit

The difference between the two.

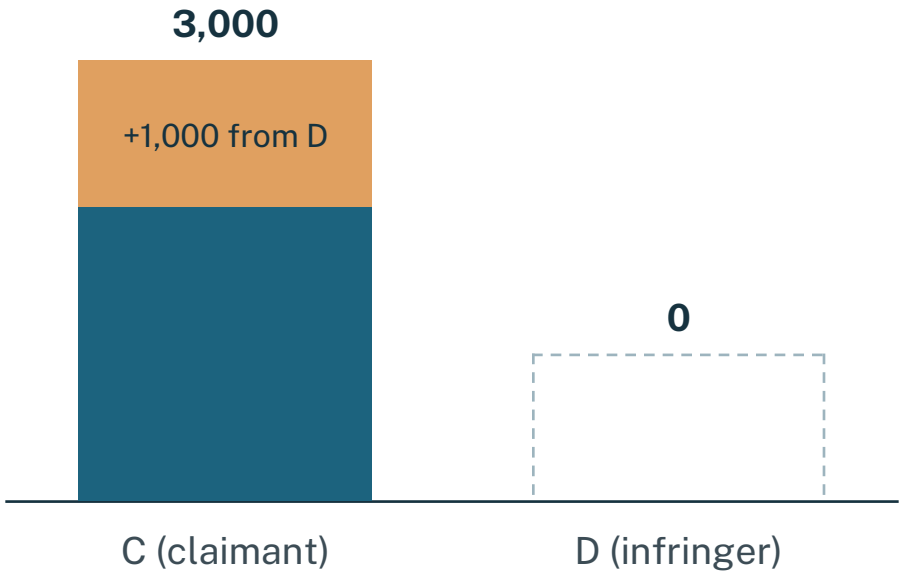
LOST PROFITS

1:1 diversion of sales

Factual: what happened

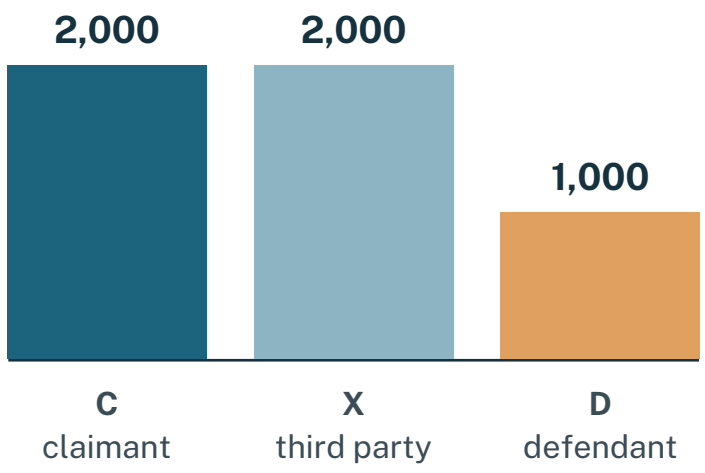


Counterfactual: no infringement

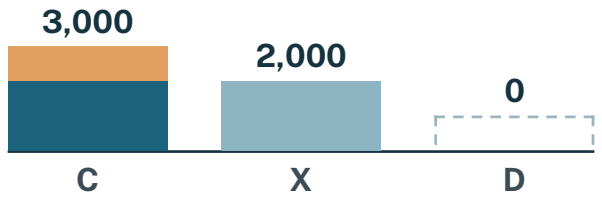


Non-monopoly situation

Factual: what happened

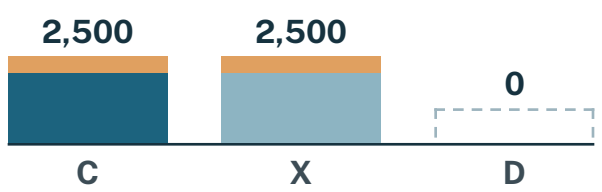


Counterfactuals?



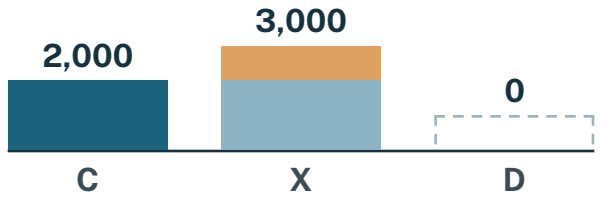
All to C

C gains all 1,000 of D's sales. X is unchanged.



Half to C, half to X

C gains 500 and X gains 500. C's lost sales are 500, not 1,000.



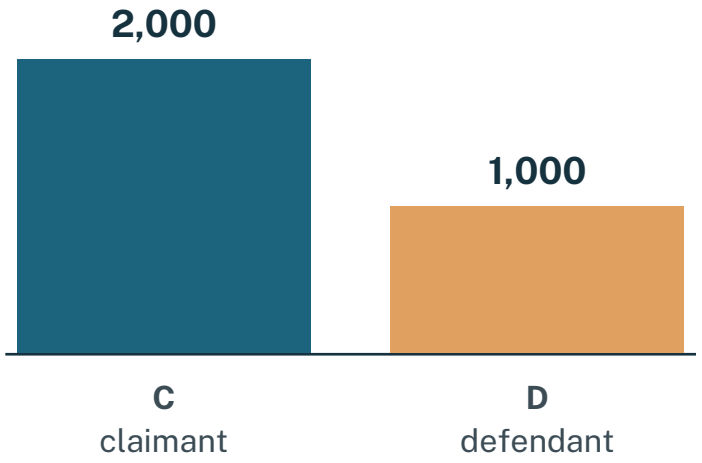
None to C, all to X

X gains all 1,000. C has lost no sales at all.

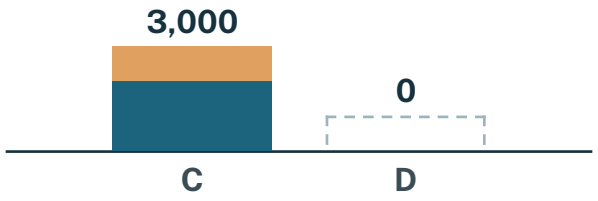
LOST PROFITS

Sales that C would not have made

Factual: what happened

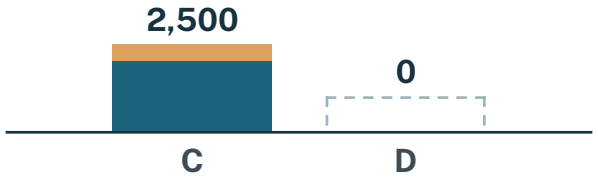


Counterfactuals?



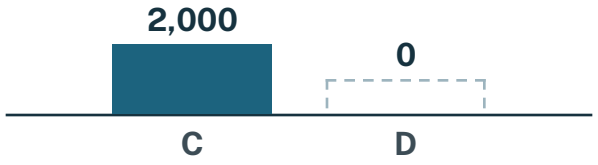
100% to C

C gains all 1,000 of D's sales.



50% to C

C gains 500. The other 500 sales are never made. C's lost sales are 500, not 1,000.



0% to C

Without D, none of the 1,000 sales is made at all. C has lost no sales.

House of CB v Oh Polly



Original Beauty Technology Company Ltd v G4K Fashion Ltd [2021] EWHC 3439 (Ch), David Stone

House of CB v Oh Polly





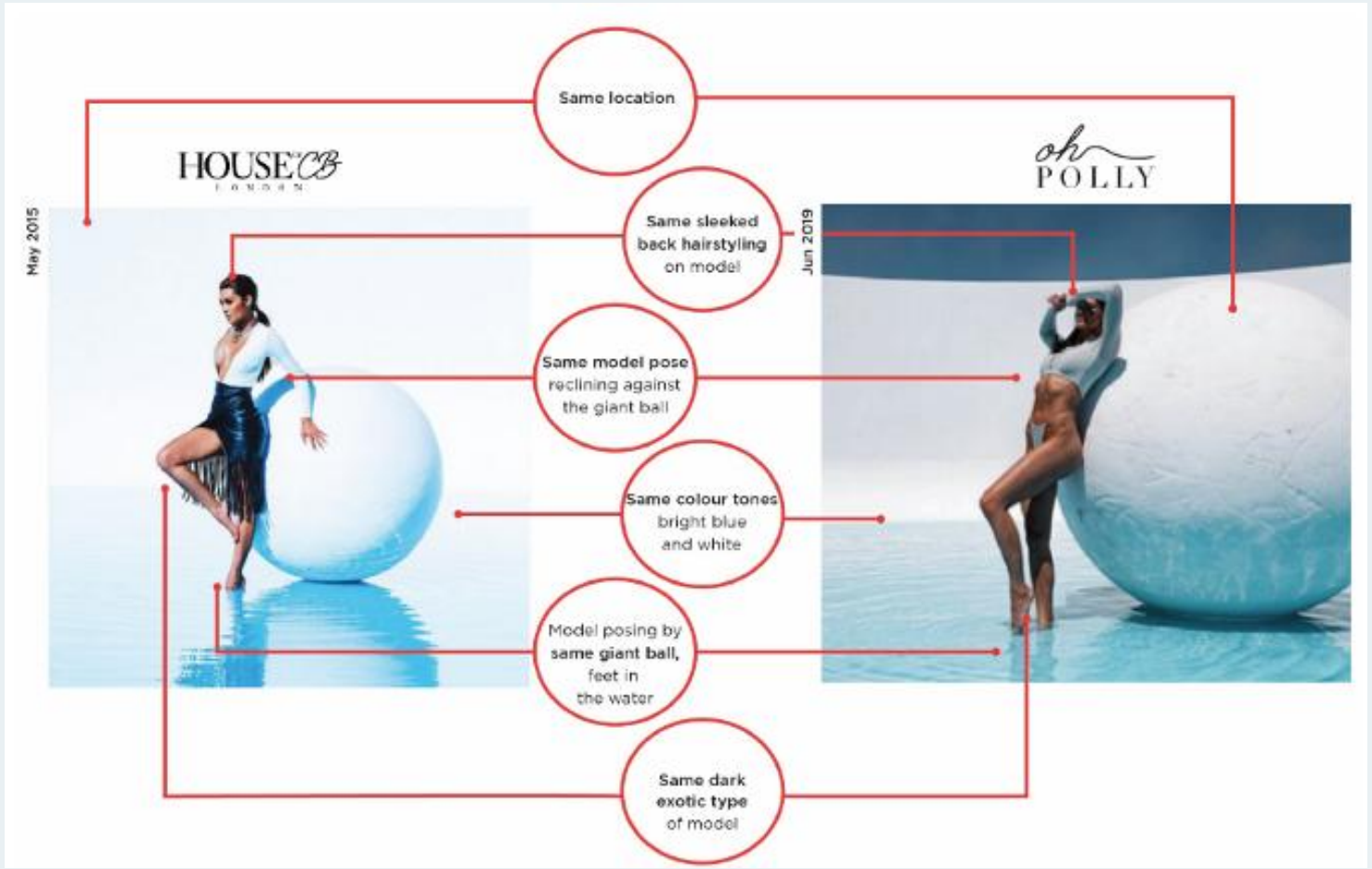
Original Beauty Technology Company Ltd v G4K Fashion Ltd [2021] EWHC 3439 (Ch), David Stone

House of CB v Oh Polly



Original Beauty Technology Company Ltd v G4K Fashion Ltd [2021] EWHC 3439 (Ch), David Stone

House of CB v Oh Polly



Original Beauty Technology Company Ltd v G4K Fashion Ltd [2021] EWHC 3439 (Ch), David Stone

Estimating extent of diverted sales

87. The Claimants' case on lost profit damages was as follows:

Lost profit = number of lost sales of the Infringing Garment (**Lost Sales**) x total per-unit profit for the Claimants' garments incorporating the respective Infringed Design (**Per Unit Profit**)

Lost Sales = total number of Defendants' sales of Infringing Garment x **P**

where $0 < P \leq 1$, representing the probability that a sale in fact made by the Defendants of an Infringing Garment was to a customer who would have purchased the respective Claimant's Garment had the Infringing Garment not been available."

102. Taking a value of P at 0.2 rather than 0.25, and adjusting for the matter set out in the previous paragraph, I award the Claimants £74,847.92 in lost profits.

[2021] EWHC 3439 (Ch) at [87]–[102]

PART TWO

Licence fee damages

LICENCE FEE DAMAGES

Where lost profits cannot be shown

No exploitation at all

The claimant does not use the right itself, so it has no profits to lose.

Sales that were not diverted

Infringing sales that did not in fact cause loss of claimant's profits - still to be compensated.

House of CB v Oh Polly: 15,393 infringing sales total



Damages awarded under each head: £150,125 total



[2021] EWHC 3439 (Ch) at [136]–[138], [156]

BETTER FOR THE EXERCISE?



Watson, Laidlaw & Co v Pott, Cassels & Williamson (1914) 31 RPC 104 (HL)

Hypothetical negotiation

1

Willing parties

A willing licensor and a willing licensee who wish to reach a deal. Actual animosity and unreasonableness are disregarded.

2

Ex ante

Negotiation takes place before the infringement begins.

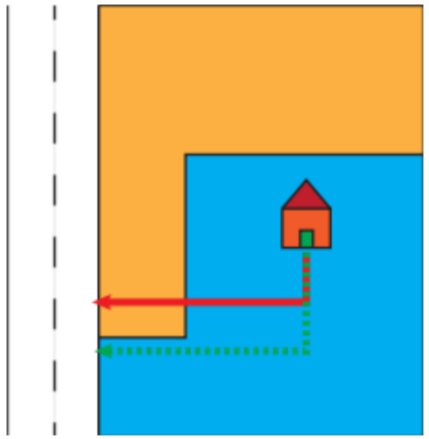
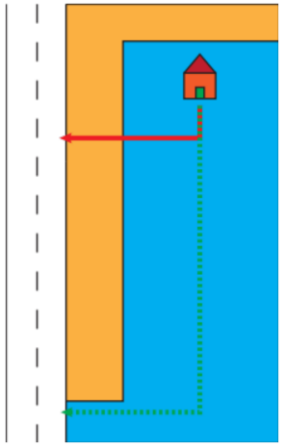
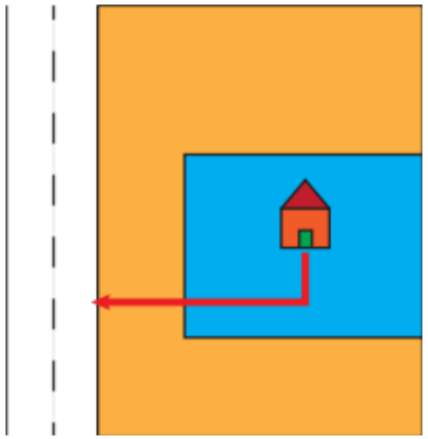
3

Same scope

The licence is one which would have legitimised the defendant's actual infringement.

The price must be **reasonable**: one which a reasonable licensee would agree to pay and a reasonable licensor would agree to accept.

Non-infringing alternatives / economic benefits

LAND	 Price must be low - or blue will simply take the longer route and orange gets nothing	 Blue willing to pay more, reflecting the inconvenience of the long detour	 Blue has no alternative route to access the road - price can be substantial
IP	Trade mark licence, no reputation; licensee has not yet launched its product / service or committed itself to using the brand. Substantial royalty unlikely to be reasonable - licensee could just choose a different brand.	Including patented feature in licensee's product would allow price to be increased by £5/unit compared with current (non-infringing) product Royalty £5/unit - not reasonable Royalty of 5p/unit - probably not reasonable	Licensee cannot sell its products at all without a patent licence. Royalty equivalent to 100% of licensee's anticipated profits - not reasonable Royalty equivalent to 30% of licensee's anticipated profits - could be reasonable

Comparable licences

Evidence of what real parties agreed for comparable rights.
Useful where marginal value of a licence is hard to model.
But require careful consideration.

Similar circumstances

- same / similar rights licensed?
- same / similar acts permitted?
- extent of exploitation of licence similar?
- term of licence comparable?
- parties similarly-situated?

Reasonable / willing parties

Can each party to the comparable safely be assumed to have behaved reasonably in agreeing it and to have done so willingly?

- Licence agreed in settlement of litigation / under threat of injunction?
- Licensor / licensee in financial distress?
- Truly arms-length?

Rule of thumb?

Intellectual Property Office

Agreeing a price for IP rights

IP Health Check 2

Rules of thumb

The 25% rule

In many negotiations the royalty rate actually agreed for a patent turns out to be somewhere between 25% and 33.3% of the licensee's anticipated gross profits (before tax) on sales of products which use the patent. For a trade mark the royalty rate is more likely to be between 10% and 15%.

Most royalties are on net sales, so the 25% rule is adapted to give a rate on net sales. In sectors where profit margins are usually high (e.g. the software industry), the royalty rate will be correspondingly high; where profit margins are traditionally low, royalty rates will also be low.

The 5% rule

In many sectors the average royalty rate based on net sales turns out to be in the region of 5%. This is an average and the figures which underlie it vary widely.

Merck KGaA v Merck Sharp & Dohme

- Two pharmaceutical groups with a common origin, now entirely separate buisinesses
- Agreements of 1955 and 1970 restrict MSD's use of "Merck" alone outside the USA
- MSD breached the 1970 Agreement and infringed Merck's UK marks, mainly online
- No claim for lost profit: licence fee damages only

Merck's comparables case

- Starting point: Merck's own intra-group brand licences, at a 0.33% royalty
- That rate was set by reference to an Ernst & Young benchmarking study
- Adjusted down for MSD's narrower use, up for licensing a competitor
- Result: 0.13% to 0.47% of MSD's revenues

Economic benefits: the costs MSD avoided

- Geo-blocking UK visitors, or running mirrored websites without "Merck"
- Mirrored social media pages
- Marketing the MSD and Merck Sharp & Dohme names in the UK

[2025] EWHC 2376 (Ch), Bacon J

Merck KGaA v Merck Sharp & Dohme

REJECTED

Comparables

111. For the reasons set out above, I reject that position. Merck's comparables analysis turned on its reliance on the 0.33% figure adopted by Merck for its intragroup healthcare licences, but that figure was derived from an EY analysis which was statistically meaningless. Since Mr Wynn was unable to provide any evidence as to where the correct starting point figure should lie, as between 0% and 0.33%, if the 0.33% figure was abandoned, there is ultimately no evidential support for the adoption by the court of any specific figure at all pursuant to a comparables analysis. Any attempt to do so would be nothing more than wild speculation.

ACCEPTED

Economic benefits

The costs MSD avoided by not complying:

Geo-blocking and mirrored websites	£4.33m
Mirrored social media pages	£781,703
Marketing the MSD names in the UK	£566,000

Before inflation and discounting at 4%. Final figure about **£4.4m**.

[2025] EWHC 2376 (Ch) at [104]–[112], [116], [185]

Additional damages

Non-compensatory damages

Copyright and unregistered design rights

Sections 97(2) and 229(3) CDPA 1988.

Justification

To punish the defendant and deter other would-be infringers.
"Flagrancy damages".

When available

"Couldn't care less" attitude, or worse.

The award must be **effective, proportionate and dissuasive** (enforcement directive / IP (Enforcement, etc.) Regulations 2006.

PPL v Ellis (t/a Bla Bla Bar) [2018] EWCA Civ 2812

Awards in previous cases

Case	Cause of action	Standard	Additional
Microsoft v Able System Development (Hong Kong, 2002)	Copyright, trade mark: software	HK$32,575,064	HK$3,257,506
Nottinghamshire Healthcare v News Group [2002] RPC 49	Copyright: photos	£450	£9,550
Peninsular Business Services v Citation [2004] FSR 17	Copyright: manuals	£9,000	£9,000
PPL v Reader [2005] EWHC 416 (Ch)	Copyright: music	Not assessed	Not assessed
Cavalcade Records v HHO Multimedia [2013] EWPCC 41	Copyright: music	£3,500	£3,500
Pendle Metalwares v Walter Page [2014] EWHC 1140 (Ch)	UKUDR, UCD and copyright: bins	£52,705	£13,000
PPL v Miller [2016] EWHC 3738 (Ch)	Copyright: music	£3,251.25	£1,600
Absolute Lofts v Artisan [2017] ECDR 6	Copyright: photos	£300	£6,000
Reformation Publishing v Cruiseco [2018] EWHC 2761 (Ch)	Copyright: music	£38,750	£25,000
Charles and Ivy Limited v Ivy Top Limited [2026] EWHC 2556 (IPEC	Copyright: photos	£4,000	£3,000

House of CB v Oh Polly [2021] EWHC 3439 (Ch) at [145]

House of CB v Oh Polly

£150,125
Standard damages: lost profits plus royalty

+

£300,000
Additional damages

=

£450,125
Total payable

"Large Scale": 15,393 garments over four years

Conduct: copying continued even after complaint was made; copying was denied up to and at liability trial

Defendants' means: £3,000 was "on no basis … a 'significant amount' to the Defendants"

Deterrence: the defendants “must be left out of pocket”

[2021] EWHC 3439 (Ch) at [150]–[154]

PART FOUR

Accounts of profits

Apportionment - Lufthansa v Astronics

STEP 1

Whether to apportion

- No apportionment if, without the infringement, the product would not have existed at all, or the invention was its essential ingredient [159], [171]
- Differential profits analysis only with a well-defined, uncontested non-infringing alternative: likely to be rare [160]
- In every other case, a fair apportionment [161]
- Factual causation shows the infringement was necessary, not that it was sufficient [172]

STEP 2

How to apportion

- A fair, broad-brush division: reasonable approximation, not mathematical exactness [91], [105]
- Starting point: profits follow costs, weighted for the real value of the invention [191]–[192]
- Or contemporaneous evidence of the value placed on the right, such as licence royalties [193]
- Here: a royalty from Lufthansa's own licence gave 13% of profits [194]–[202]

Lufthansa Technik v Astronics [2026] EWCA Civ 964, Arnold LJ

Deductibility of overheads

Deductible

- **Incremental overheads:** costs that rose because of the infringing sales
- **A share of general overheads**, where that capacity would otherwise have supported sales of a non-infringing product

Not deductible

- **General overheads incurred anyway:** spare capacity, not increased by the infringement
- **An automatic pro rata share** of overheads, without evidence of attribution
- **Opportunity cost:** the profit forgone on alternative products

Hollister v Medik [2012] EWCA Civ 1419; Design & Display [2016] EWCA Civ 98; Lufthansa [2026] EWCA Civ 964 at [328], [347]

The quantum trial

The nature of the inquiry

1

On the balance of probabilities, has at least some damage of the kind in question been sustained by the Claimant?

2

If so, what is the court's best estimate, based on the available evidence, of the monetary value of that damage?

Evidence

1

Factual evidence

The primary facts on which any estimate rests: sales, prices and costs, the customers and the market, and what each party would have done.

2

Expert evidence

> Not the role of expert evidence in damages inquiries to proffer answers to the questions that are those for the court.

Original Beauty v G4K Fashion [2021] EWHC 3439 (Ch) at [68]

THE QUANTUM TRIAL

Litigation strategy

Island Records v Tring

- No election between damages and an account until the claimant can make an informed choice
- The defendant first gives limited disclosure of sales, revenues and costs

Pleadings

- Plead each head of loss and the method of calculation
- Positive alternative cases

Disclosure

- Financial records
- Licences and internal valuations

Part 36 offers

- A defendant's offer the claimant fails to beat shifts the costs risk
- A claimant's offer that is beaten: enhanced recovery, interest, indemnity costs

Island Records v Tring [1996] 1 WLR 1256

Questions