

Supreme Court puts to bed the principle leading to damages for infringing an invalid patent

In a significant recent judgment the Supreme Court (the UK's highest court) has revisited and overturned a legal principle developed by the UK courts over 100 years.

In *Virgin Atlantic Airway Ltd v Zodiac Seats UK Ltd*, the Supreme Court ruled on the principle of whether a defendant was required to pay damages for an earlier finding of infringement by a UK court (with no further course of appeal in the UK system) of a European patent which no longer exists in the form said to have been infringed. In the present case, this was because the patent had been subsequently amended in opposition proceedings running in parallel before the Technical Board of Appeal (TBA) at the European Patent Office (EPO) while the damages enquiry was on-going.

Background

Virgin was seeking £49 million in damages resulting from the infringement of a European patent it owned in relation to flatbed aircraft seating units. The patent was granted in 2007, and shortly after grant Virgin sued in the High Court claiming damages for Zodiac's alleged infringement of the patent. Zodiac counterclaimed for invalidity in the High Court, and in parallel filed an opposition to the patent at the EPO.

European patents can be, and often are, challenged in both the national courts (e.g. the UK) and in central opposition proceedings before the EPO. The effect of the decisions in national courts and the EPO is different, however, because a validity decision of a national court only has national effect, whereas a decision by the EPO has effect in each territory

in which the patent has been validated. As noted by the Supreme Court, national proceedings are often much quicker to reach a final decision than the EPO, but the final decisions can conflict, as was the case here.

In early 2009, the High Court judged the patent to be invalid for added matter, but dismissed the attacks that the claimed subject-matter lacked novelty or was obvious. It also held that had the patent been valid, the claims would have been infringed by Zodiac. Both parties appealed. Two months later, the EPO's Opposition Division upheld the patent subject to minor amendments which were deemed immaterial to the present dispute. This decision was also appealed.

The Court of Appeal in London heard the appeal in October 2009, and gave judgment reversing the High Court's decision on added matter. It held the patent to be valid and infringed, and issued an order awarding damages. The TBA, however, subsequently held that the claims that had been found infringed by the Court of Appeal were invalid, and accepted amendments that removed them. The operation of law meant that the patent was retroactively deemed to have existed in that amended form from grant. By the time of the TBA's decision, however, infringement and invalidity proceedings before the Court of Appeal had been completed and permission to appeal had been refused by the Supreme Court.

Following the TBA's decision, Zodiac petitioned the Court of Appeal to vary its order awarding damages (the damages enquiry had not yet been completed), but the Court of Appeal issued a decision holding that the order would stand on the basis of the unamended patent. The present judgment results from the appeal of that decision.

The Supreme Court's decision

Before the Supreme Court, Virgin's arguments focussed on previous decisions from the Court of Appeal relating to the same issue of damages on patents that were subsequently amended or revoked. It argued these set out that there was no legal basis for revisiting the question of whether the damages should have been awarded, on the basis of *res judicata*: once the issue had been finally decided by the courts (i.e. that the unamended patent was valid and infringed), it could not be revisited.

The Supreme Court noted that the Court of Appeal's decision related to the unamended patent, and that *res judicata* only prevented Zodiac from arguing about the damages awarded based on the patent in that form. Virgin's argument therefore was not relevant to the present appeal because "*Zodiac's reliance on the retrospective amendment is a new point which was not raised before. It could not have been raised before, because*

the decision of the TBA retrospectively amending the patent was made after the order giving effect to the judgment of the Court of Appeal. There are two related reasons why Zodiac cannot be precluded from relying on the decision of the TBA on the enquiry as to damages. One is that they are relying on the more limited terms of a different patent which, by virtue of the decision of the TBA, must at the time of the enquiry be treated as the only one that has ever existed. The other is that Zodiac are not seeking to reopen the question of validity determined by the Court of Appeal".

The Supreme Court also addressed why the previous case law, followed by the Court of Appeal, was wrong. In particular, Lord Neuberger's judgment set out that the Court of Appeal "*did not have appropriate regard to the statutory provisions relating to patents, which reflect the nature of a patent and the effect of its revocation. They therefore treated the subsequent decision to revoke the patent as no more than a later determination by another court in other proceedings between different parties*". This was because the revocation or limitation of a patent is not just effective between the two parties in the action, but rather between the patentee and the rest of the world. "*In other words, the effect of the revocation was that everyone was entitled to conduct their affairs as if the patent had never existed*". This meant that in the court's view there could be no damages, because the operation of law meant that there never was a patent that had been infringed.

Additional observations from the court

In *obiter* comments (albeit agreed with in the judgment of Lord Neuberger), Lord Sumption called into question the guidance given by the Court of Appeal which had earlier said that an English court should normally refuse a stay of its own proceedings if it would be likely to resolve the question of validity significantly earlier than the EPO. The judges noted a number of problems with this guidance including the fact that if the UK proceedings had been

fully concluded and the damages had been paid, then the defendant would be required to bring a claim in restitution to seek recovery of the amounts paid. Further Lord Sumption noted that "*even if the EPO opposition proceedings are concluded in time to affect the English proceedings, the uncertainty and waste of costs involved do little credit to our procedures*", and suggested that the Patents Court and the Court of Appeal reconsider the guidance.

Comments

The judgment goes some way to address a situation that had been considered by a number of commentators to be unfair, but is noted only to apply to situations where at least the enquiry into the damages awarded is on going.

Further, although only made as observations by the Supreme Court judges (which means that the comments are not binding on the lower UK courts), it is likely that the lower courts will now be minded to consider the prospect of, and problems resulting from, potentially conflicting results from the UK and EPO proceedings. This may lead the UK courts to be have a greater inclination to stay proceedings where an EPO opposition has been filed, even though it can often take many years for completion of both first and second instance proceedings before the EPO.

However, if this change does indeed come to pass, it will be a sad day for those who want actions dealt with efficiently. In recent years the UK courts have speeded up their proceedings so that first instance cases can be dispatched within a year or so (with any Appeal finished within a further year); if we will now have to wait until EPO proceedings have been completed, then actions will take very much longer to be resolved (a total of 5 or 6 years for both instances is fairly standard). Whilst the EPO is not averse to accelerating its own proceedings in such scenarios, this is very much the exception rather than the norm.

This judgment also elevates the importance of EPO opposition proceedings and emphasises that it is essential to file an EPO opposition in every instance where infringement of a patent is potentially arguable at any level.

In an interesting footnote to the legal proceedings, shortly after the judgment was given, Virgin agreed to sell the engineering department of its Threesixty Aerospace unit (which was involved in developing Virgin's flatbed seats) to Zodiac. This move has been said by Virgin not to be directly linked to the ruling.

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