Neutral Citation Number: [2013] EWHC 815 (Ch)

Case No: HC09C00662

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
INTELLECTUAL PROPERTY
COMMUNITY TRADE MARK COURT

Rolls Building, Royal Courts of Justice

7 Rolls Buildings, Fetter Lane

London, EC4A 1NL

Date: 12/04/2013

Before :

MR JUSTICE NEWEY

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Between :

32RED PLC (A GIBRALTAR COMPANY)	Cl
- and -	
(1) WHG (INTERNATIONAL) LIMITED (A GIBRALTAR COMPANY)	
(2) WHG TRADING LIMITED (A GIBRALTAR COMPANY)	Defe
(3) WILLIAM HILL PLC	

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Mr Michael Silverleaf QC and Mr Tom Moody-Stuart (instructed by **McDermott Will & Emery UK LLP**) for the **Claimant**

Mr Henry Carr QC and Miss Lindsay Lane (instructed by **Linklaters LLP**) for the **Defendants**

Hearing dates: 26-28 February & 4, 6 & 7 March 2013

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Judgment

Mr Justice Newey :

1.
Between January and August of 2009, the defendants infringed trade marks to which the claimant is entitled. An inquiry as to damages was ordered. The task before me is the assessment of those damages.

Basic facts

2.
This section of the judgment is largely derived from the judgment Henderson J gave in these proceedings on 21 January 2011.

3.

The claimant, 32Red plc (“32Red”), has been operating an online casino under the “32Red” brand since 2002. It is not one of the largest operators in its field, but its business is still substantial. In 2009 it had about 25,000 active casino players who placed over 130 million bets with a value of around £170 million, generating gross revenue for 32Red of some £11 million. About 74% of this income was generated by players based in the United Kingdom.

4.
By 2006 32Red was the registered owner of two European Community trade marks: one for the word “32Red” and another for a device consisting of a stylisation of “32Red” in a roulette ball. In the same year, an online casino began to operate under the name “32Vegas”. That casino had no connection with 32Red, and its ultimate ownership is still unknown. It was regulated first in Antigua and then in the Canadian Mohawk Territory of Kahnawake. It was, however, prohibited from advertising in the United Kingdom.

5.
In May 2004 32Red’s lawyers sent a “cease and desist” letter to Crown Solutions Gaming Limited (“Crown Solutions”), the Antiguan company which had registered the domain name “32vegas.com”. The letter complained of infringement of 32Red’s intellectual property rights. No reply was, however, received from Crown Solutions, and the matter was allowed to rest. Mr Edward Ware, 32Red’s founder and chief executive, explained to Henderson J that the 32Vegas casino appeared to be a small-scale operation, that the threat which it posed to 32Red’s business was limited because of its inability to operate in the United Kingdom, and that it was thought that enforcement proceedings would be difficult.

6.
In October 2008 the William Hill group entered into a joint venture with Playtech, one of the leading providers of gaming software. The joint venture involved the purchase of an established online gaming business run by an entity called Uniplay, which was affiliated to Playtech. The Uniplay assets included the unregistered mark “32Vegas” as well as a number of other brands owned by Crown Solutions. From the point of view of the William Hill group, the acquisition by the joint venture of the 32Vegas mark and the online casino business carried on under it was part of a much larger operation which was designed to expand and re-launch William Hill’s presence in the online gaming sector.

7.
The joint venture was completed on 30 December 2008. As part of the arrangements, the domain name “32vegas.com” had been transferred from Crown Solutions to a Playtech company called Genuity Services Limited (“Genuity”), and on 30 December 2008 Genuity granted a licence to use the domain name together with any associated marks (whether registered or unregistered) to the first and second defendants, WHG (International) Limited and WHG Trading Limited. These are both Gibraltar-registered companies, and their function at all material times has been to carry on all aspects of the William Hill business that involve online gaming. The online gaming business is known as "William Hill Online".

8.
Under the joint venture, William Hill Online is owned as to 71% by William Hill Organisation Limited (“WHO”), the main trading company within the William Hill group, and as to 29% by Genuity. WHO is a wholly-owned subsidiary of the third defendant, William Hill Plc, which is registered in England and Wales and listed on the London Stock Exchange.

9.

Like 32Red, the William Hill Online companies are licensed by the Gibraltar Licensing Authority and regulated by the Gibraltar Gambling Commission. In consequence, the 32Vegas online casino was no longer barred from advertising in the United Kingdom or elsewhere within the European Community.

10.
On 19 January 2009 32Red's Gibraltar lawyers wrote a "cease and desist" letter to William Hill Online complaining of infringement of its intellectual property rights. 32Red issued the present proceedings on 4 March, but the defendants were not served until 3 July. The reason for the delay was that 32Red had on 27 February filed an application with the Intellectual Property Office for the registration of "32" alone as a United Kingdom trade mark. That application was successful, and the registration was made on 5 June.

11.
A month after being served with these proceedings, William Hill Online ceased to use the name 32Vegas. On 3 August 2009 the 32vegas.com website was replaced by the website 21nova.com. The period during which William Hill Online operated an online casino under the 32Vegas brand thus lasted from 31 December 2008 to 3 August 2009 (i.e. just over seven months).

12.
The case came on for trial in October 2010. In his judgment ([2011] EWHC 62 (Ch)), Henderson J concluded that 32Red's Community marks were valid and had been infringed. As regards the United Kingdom mark, Henderson J took the view that this had not been infringed, but in this particular respect the Court of Appeal arrived at a different conclusion (see [2012] EWCA Civ 19). The upshot, accordingly, was that 32Red succeeded in establishing infringement of its United Kingdom mark as well as its Community marks.

13.
An inquiry as to damages was directed. 32Red accepts that it is not in a position to prove that it suffered a loss of profits as a result of the defendants' infringement of its trade marks, but it claims to be entitled to a sum equal to a reasonable royalty on the strength of the "user principle". This is explained further in paragraphs 22-42 below. I should first, however, refer to the business models used by online casinos such as 32Red and William Hill Online.

Online casino business models

14.
As Mr Mark Bezant, 32Red's expert witness, explained:

> "[T]here are two principal types of online casino business models: the 'Single Brand' model where an operator develops, promotes and maintains a single brand (32Red's approach); and the 'Carousel' model where a portfolio of brands is offered by a single operator (the Defendant's and Uniplay's approach). For both models, the provision of bonuses is the most important form of marketing, but operators employing the 'Single Brand' model generally use relatively more conventional marketing".

15.
Henderson J referred to the distinction between the business models in paragraph 31 of his judgment, where he said:

> "[T]he business model employed by Uniplay, and intended to be employed for the joint venture, was the antithesis of the model pursued by 32Red, or indeed by William Hill in relation to its core UK activities. Instead of focussing on a single brand and promoting its reputation, the alternative model depended on the provision of a portfolio of brands in common ownership and encouraging customers to switch from one to another. Under this model the reputation of the individual brands was comparatively unimportant, and the principal aim was to ensure that a customer would stay within the network of linked brands and products".

16.
In the previous paragraph of his judgment, Henderson J had quoted evidence given by Mr Thomas Murphy (the general counsel and company secretary of William Hill plc whose evidence Henderson J said he had no hesitation in accepting) as to the commercial rationale of the proposed deal between the William Hill group and Playtech:

> " 'Playtech would acquire Uniplay and combine its assets with William Hill's Online offering … There was no reference to particular brands that Uniplay operated; they were not considered important. As we understood the business, part of Uniplay's success came from its ability to move players from one casino to another, so that even if they changed where they were playing, they were still doing business with a Uniplay casino. They used a number of brands …'"

17.
Henderson J went on to say this:

> "32 Consistently with this marketing philosophy, Mr Murphy says that none of the board discussions considered the brands which formed part of the Uniplay assets:
>
> 'From the William Hill side the joint venture was not focused on the brands, rather it was formed to acquire leading software and expertise in online customer relationship management. The aims were to obtain leading software, reduce the cost of acquiring customers and increase their lifetime value. The joint venture offered the prospect of bringing these improvements to the "William Hill" brand. None of that depended on the identity of the websites being contributed. We did not discuss 32Red.'
>
> 33 The joint venture was agreed and announced on 20 October 2008, and … it completed on 30 December 2008. A due diligence exercise was conducted on the Uniplay assets by Playtech's solicitors, which included trade mark issues. In relation to the mark '32Vegas', it emerged that Crown Solutions had applied to register it as a Community trade mark, but the application had been opposed by another company (La Française des Jeux) based on its earlier registration for 'vegas'. The due diligence report noted that the Crown Solutions mark would probably not be registered, and that 'Crown has confirmed that the mark "32 VEGAS" is not material to Crown's operations …'. The risk posed by the opposition to Crown Solutions' application was dealt with by means of an indemnity in the Framework Shareholders Agreement.

> 34 Although there was one brief reference to 32Red in the due diligence report, it had no impact on the negotiations and amounted to no more than a record that 32Red was a customer of part of the assets to be acquired. Mr Murphy knew nothing about any alleged infringement of the 32Red marks until after completion in 2009.
>
> 35 I have already referred to the public announcement of the joint venture on 20 October 2008, which described the business of Crown Solutions as having 'multiple low-key brands'. Mr Murphy's unchallenged evidence, at the conclusion of his statement, is as follows:
>
> '28. There was no intention to take advantage of the Claimant's trade marks or any reputation in them. To the best of my knowledge there was no discussion of the 32Red marks. There was in fact very little discussion of the Uniplay marks as they were not considered important to the deal.
>
> 29. We relied upon the due diligence as indicating the state of the Uniplay business. A potential problem arose with a third party opposition to the registration of the mark "32Vegas" which was resolved by negotiation. If William Hill had been concerned about 32Red we would have sought a specific indemnity in similar terms to that in clause 42 of the Framework Shareholders Agreement. We did not'".

18.
Later in his judgment (in paragraph 96), Henderson J said this:

> "By January 2009 32Red was a strong brand with an excellent reputation, and from its inception in 2002 it had been promoted alone, not as part of a family of brands in common ownership. By contrast, 32Vegas had always been marketed on the 'carousel' model, and as Mr Cole-Johnson [the gaming director of William Hill Online] frankly acknowledged the reputation of individual casinos was never of any particular importance to William Hill Online, any more (I infer) than it had previously been to Crown Solutions".

19.
In a similar vein, Mr Murphy stated in a witness statement filed in connection with the present inquiry that William Hill's understanding was that "the carousel model that Crown Solutions used relied for its success on attractive bonuses and an active affiliate programme" and that he "understood that the individual names of the carousel brands were not important and did not know what they were". During cross-examination, he said:

> "We were not viewing any particular brand as important. They were barely mentioned during the course of discussions in the creation of the joint venture. This question about the La Française des Jeux trade mark came up late in the day, and we were told and assured by the vendors that it was unimportant, that they could easily change it".

20.
With regard to Mr Murphy's references to bonuses and an "affiliate programme", the roles of "affiliates" and bonuses were explained in these terms in 32Red's skeleton argument:

> "One way in which online casinos attract customers is through the use of 'affiliates', third parties who promote the services of the casino online and provide links through to the casino website, in return for which the casino operator pays the affiliate a fee in proportion to the level of business undertaken by the person referred. Another way in which business is attracted to an online casino is through the use of bonuses and free bets. These (which are promoted by the affiliates as a marketing tool) are offers of 'free money' which are made as incentives to sign up a customer or to deposit funds if already a member.
>
> Such bonuses generally take the form of an offer to match the funds deposited or, for higher value deposits, to award multiples thereof. Once such a bonus has been paid into the customer's account it is treated in the same way as the money deposited. However, in order to prevent the customer simply withdrawing the entirety of the funds without placing any bets, bonuses come with strings attached, known as wagering requirements."

21.
The value of bonuses, free bets and other rewards provided to customers is reflected in what is called "Gross Win". This expression refers to the total of all bets placed at a casino (including bets placed using bonus money and free bets) less total sums paid out to customers. The value of all "free money" (whether bonuses, free bets or other rewards) given to customers gives rise to "Fair Value Adjustment" (or "FVA"). "Net Gaming Revenue (or "NGR") is calculated by subtracting FVA from Gross Win.

The legal principles

The "user principle"

22.
As already mentioned, 32Red's claim is based on what has been termed the "user principle". Nicholls LJ coined the term in Stoke-on-Trent City Council v W & J Wass Ltd [1988] 1 WLR 1406 (at 1416) to refer to the principle that a person who has wrongfully used another's property can be liable to pay, as damages, a reasonable sum for such use.

23.
This principle is well-established in relation to patent infringement. In General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd [1975] 1 WLR 819, Lord Wilberforce explained (at 824-825) that damages for patent infringement are assessed in three main ways. In the first place, if the claimant exploits the invention by manufacturing and selling goods at a profit, and the effect of the infringement has been to divert sales to the defendant, the "measure of damages will … normally be the profit which would have been realised by the owner of the patent if the sales had been made by him". Secondly, if the claimant exploits his patent by granting licences in return for royalty payments, "the measure of damages [the defendant] must pay will be the sums which he would have paid by way of royalty if, instead of acting illegally, he had acted legally". Thirdly, where it is not possible to prove either that there is a normal rate of profit or a normal royalty, damages fall to be assessed by considering what price could reasonably have been charged for permission to carry out the infringing acts. This last method of assessing damages can be seen as an application of the user principle (see Stoke-on-Trent City Council v W & J Wass Ltd, at 1416-1417, and Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd [2012] EWHC 616 (Ch), [2012] RPC 29, at paragraph 376).

24.
On occasions, the Courts adopt essentially the same approach when assessing contractual damages. As Lord Nicholls of Birkenhead explained in Attorney-General v Blake [2001] 1 AC 268 (at 283-284), in contract as well as tort damages will in a suitable case:

> “be measured by the benefit gained by the wrongdoer from the breach. The defendant must make a reasonable payment in respect of the benefit he has gained”.

25.
In Force India, Arnold J extracted from the authorities the following principles for the assessment of such damages (see paragraph 386):

> “(i) The overriding principle is that the damages are compensatory: see Attorney-General v Blake at 298 (Lord Hobhouse of Woodborough, dissenting but not on this point), Hendrix v PPX at [26] (Mance L.J., as he then was) and WWF v World Wrestling at [56] (Chadwick L.J.).
>
> (ii) The primary basis for the assessment is to consider what sum would have [been] arrived at in negotiations between the parties, had each been making reasonable use of their respective bargaining positions, bearing in mind the information available to the parties and the commercial context at the time that notional negotiation should have taken place: see PPX v Hendrix at [45], WWF v World Wrestling at [55], Lunn v Liverpool at [25] and Pell v Bow at [48]–[49], [51] (Lord Walker of Gestingthorpe).
>
> (iii) The fact that one or both parties would not in practice have agreed to make a deal is irrelevant: see Pell v Bow at [49].
>
> (iv) As a general rule, the assessment is to be made as at the date of the breach: see Lunn Poly at [29] and Pell v Bow at [50].
>
> (v) Where there has been nothing like an actual negotiation between the parties, it is reasonable for the court to look at the eventual outcome and to consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain: see Pell v Bow at [51].
>
> (vi) The court can take into account other relevant factors, and in particular delay on the part of the claimant in asserting its rights: see Pell v Bow at [54]”.

26.
With regard to point (v), the authority cited is Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd [2009] UKPC 45, [2011] 1 WLR 2370. In that case, the Privy Council endorsed (in paragraph 50) a passage from Neuberger LJ’s judgment in Lunn Poly Ltd v Liverpool & Lancashire Properties Ltd [2006] EWCA Civ 430, [2006] 2 EGLR 29 reading as follows:

> “Given that negotiating damages under [Lord Cairns’] Act are meant to be compensatory, and are normally to be assessed or valued at the date of breach, principle and consistency indicate that post-valuation events are normally irrelevant; but, given the

> quasi-equitable nature of such damages, the judge may, where there are good reasons, direct a departure from the norm either by selecting a different valuation date or by directing that a specific post-valuation date event be taken into account".

27.
The defendants' pleaded case was that user principle damages are not available in the present case. By the time of the hearing, however, they had accepted that such damages can potentially be appropriate for trade mark infringement. The parties now differ as to how much should be awarded rather than whether there should be any award at all.

Specific issues

28.
Two questions call for particular consideration in the present case:

i)
How far are the specific characteristics and circumstances of the parties important to the assessment of user principle damages?

ii)
How far is it appropriate to have regard to alternative courses of action which would have been available to the parties at the date of the hypothetical negotiation?

The significance of the parties' characteristics and circumstances

29.
There are plainly limits to the extent to which the Courts will have regard to the parties' actual attributes when assessing user principle damages. The parties are taken to have been willing to make a deal even if one or both of them would not in reality have been prepared to do so. It is also assumed that the parties would have acted reasonably regardless of whether that would in fact have been the case.

30.
Irvine v Talksport Ltd [2003] EWCA Civ 423, [2003] FSR 35 indicates that a defendant's financial circumstances are not material as such, either. The case involved the assessment of damages for passing off. At first instance, the judge had concluded that the defendant's financial position was irrelevant because there was "no question of a reasonable endorsement fee being assessed on the basis that the defendant had no money and therefore could not pay" (see paragraph 74). On appeal, Jonathan Parker LJ (with whom Schiemann and Brooke LJJ agreed) said that the judge had been right on this point (see paragraph 106).

31.
Particular character traits of the parties also fall to be disregarded. In Stadium Capital Holdings (No. 2) Ltd v St Marylebone Property Co plc [2011] EWHC 2856 (Ch), [2012] 1 P&CR 7, where damages for trespass had to be assessed in respect of an advertising hoarding which projected into the claimant's airspace, Vos J said (in paragraph 71):

> "The personal characteristics of the parties, as opposed to the objective factors with which they were faced, are to be ignored".

On this basis, he could not "assume that a reasonable hypothetical site owner has either the easygoing characteristics of [former owners of the site] any more than the exceptionally aggressive approach of [the claimant]" (paragraph 71).

32.
Matters such as those mentioned in the last two paragraphs are evidently not considered to provide any guidance as to what a right is worth. In contrast, the Courts do, as it seems to me, have regard to the circumstances in which the individual parties were placed at the time of the hypothetical negotiation. It is implicit in the passage from Vos J's judgment in the Stadium Capital Holdings case that he considered that "the objective factors with which [the parties] were faced" are relevant. Earlier cases point in the same direction. For example, in Wrotham Park Estate Co Ltd v Parkside Homes Ltd [1974] 1 WLR 798, where houses had been built in breach of a restrictive covenant, damages were calculated, not in the abstract, but by reference to the profit that the defendant would have expected to make from its development. In Sinclair v Gavaghan [2007] EWHC 2256 (Ch), where the defendants had trespassed on a piece of land referred to as "the Red Triangle" when gaining access to a plot beyond ("the Yellow Land") which they were developing, Patten J similarly took account of circumstances particular to the defendants: he had regard both (a) to the significance of the trespass in the context of the defendants' development of the Yellow Land and (b) to the fact that they owned neighbouring land ("No. 21"). In Field Common Ltd v Elmbridge BC [2009] 1 P&CR 1, Warren J said (in paragraph 78) that the hypothetical negotiation is "designed to establish the value of the wrongful use to the defendant and not some objective figure as between hypothetical persons negotiating for a hypothetical licence" and that the negotiation "would be one between the actual parties, albeit that they are to be treated as parties willing to deal with each other with a view to reaching a reasonable result".

33.
The same point can be seen in an intellectual property context in the General Tire case. Lord Wilberforce said this (at 833):

> "My Lords, this passage is, in my opinion, unsupportable in law or in fact. In law it rests upon the hypothesis that what has to be considered, in measuring the loss a patentee sustains through an infringement, is some bargain struck between some abstract licensor and some abstract licensee uncontaminated by the qualities of the actual actors. But this is not so. The 'willing licensor' and 'willing licensee' to which reference is often made (and I do not object to it so long as we do not import analogies from other fields) is always the actual licensor and the actual licensee who, one assumes, are each willing to negotiate with the other — they bargain as they are, with their strengths and weaknesses, in the market as it exists. It is one thing (and legitimate) to say of a particular bargain that it was not comparable or made in comparable circumstances with the bargain which the court is endeavouring to assume, so as, for example, to reject as comparable a bargain made in settlement of litigation. It is quite another thing to reject matters (other than any doubt as to the validity of the patent itself) of which either side, or both sides, would necessarily and relevantly take account when seeking agreement".

The "actual licensor" and "actual licensee" are thus assumed to bargain "as they are, with their strengths and weaknesses".

<u>The significance of alternative courses of action</u>

34.
32Red’s expert witness, Mr Bezant, was instructed by his client to assume that “the availability of a non-infringing alternative is not a relevant factor in the calculation of a reasonable royalty”. This instruction highlights an important dispute between the parties. The defendants maintain that it is of central importance to the assessment of damages that they could have abandoned the name 32Vegas in favour of another brand (say, “21Nova”) at relatively little expense. 32Red, on the other hand, argues that this is immaterial. According to 32Red, it is well established that a defendant cannot pray in aid a non-infringing alternative to reduce the damages payable for infringement of a patent, and a non-infringing alternative could be relevant to a hypothetical negotiation about the use of “32Vegas” only if it had all the attributes of that mark.

35.
Two trespass cases are of particular significance in this context: Sinclair v Gavaghan (to which reference has been made in paragraph 32 above) and Enfield LBC v Outdoor Plus Ltd [2012] EWCA Civ 608, [2012] CP Rep 35. In the former case, Patten J said (in paragraph 16) that it was necessary to determine:

> “i) What the acts of trespass were;
>
> ii) What were their purpose and effect in relation to the development of the Yellow Land: and
>
> iii) What alternatives did the Defendants have to using the Red Triangle in order to carry out those works”.

Patten J continued (in paragraph 17):

> “On the basis of these findings the court must then assess what payment would have been agreed for the temporary use of the Claimants’ land. It is not of course open to the Defendants as part of this exercise to say that they would (if confronted with a demand for payment) have avoided making any use of the Claimants’ land. The purpose of the assessment is to calculate a sum which compensates the Claimants for the financial benefits which the Defendants actually made from using the Red Triangle. But the alternative possibilities open to the Defendants are of course highly relevant as factors which would have influenced the hypothetical negotiations. Clearly the Defendants would not have been prepared to pay and the Claimants would not have been able to demand a fee which was disproportionate to the actual financial advantages of using the Red Triangle as opposed to postponing the works or creating an alternative access point”.

On the facts, it would have been possible for the defendants to secure access to the Yellow Land via other land they owned (viz. No. 21). The parties to a hypothetical negotiation would thus have “known that the Defendants could (if necessary) avoid using the Red Triangle although it would be less convenient to do so and might on occasions make deliveries more complicated and perhaps more expensive” (paragraph 42). Patten J concluded (in paragraph 43):

> “The Defendants by their limited use of the Claimants’ land obtained a more convenient way of servicing their development in the pre-contract period but they did not achieve anything more and in my judgment they would not have paid or been asked by any

> reasonable land owner in the Claimants' position to pay more than a relatively modest sum for that privilege".

36.
Patten J thus regarded "the alternative possibilities open to the Defendants" as "highly relevant as factors which would have influenced the hypothetical negotiations". It is also noteworthy that the possibility of reaching the Yellow Land via No. 21 was viewed as important even though the Red Triangle provided access in a more convenient way.

37.
Enfield LBC v Outdoor Plus Ltd concerned advertising hoardings which had been erected in part on land belonging to the claimant and in part on neighbouring land (referred to as "No. 67"). At first instance, the judge awarded only nominal damages on the basis that the defendants would have moved the hoardings on to No. 67 had they realised that they were encroaching on to the claimant's land. The Court of Appeal allowed an appeal. Henderson J, with whom Mummery and Tomlinson LJJ agreed, said (in paragraph 47) that the judge had addressed the wrong question:

> "The judge asked himself, in effect, what would actually have happened if the question of possible trespass had been appreciated by the parties before the erection of the first hoarding, and his answer to this question was that no trespass would in fact have occurred because the hoarding would then have been placed wholly within No.67. But that, with respect to the judge, is to misunderstand the nature of the exercise which the court has to perform in cases of the present type. The starting point is the admitted trespass which took place for nearly five years, and the function of the hypothetical negotiation is to ascertain the value of the benefit of that trespass to a reasonable person in the position of Outdoor or Decaux. As Vos J. said in Stadium Capital Holdings at [69], the value of that benefit is 'the price which a reasonable person would pay for the right of user, or the sum of money which might reasonably have been demanded as a quid pro quo for permitting the trespass'. For that purpose, it has to be assumed that the hypothetical negotiation would have resulted in an agreement, even if the parties might in fact have refused or been unwilling to agree. It also has to be assumed that the actual trespass which has occurred would in fact take place, because the whole point of the exercise is to reach a reasonable measure of compensation to the claimant for that trespass. This point was made with great clarity by Patten J. in Sinclair v Gavaghan at [17], which the judge cited, but of which he seems to have lost sight when formulating his conclusions".

Later in his judgment, Henderson J said this (in paragraph 51):

> "I fully accept that any ability on the part of a trespasser to achieve the object of the trespass by alternative means is a factor which must be taken into account in the hypothetical negotiation. The alternative must, however, be one which is consistent with the trespass and which can co-exist with it. An alternative cannot be taken into account if it would eliminate the trespass itself, because that would again negate the very basis of the exercise. In Sinclair v Gavaghan there was no conceptual difficulty about taking into account the alternative means of access to the Yellow Land which were available to the defendants, because they were true alternatives to the more convenient route through the Red Triangle, and the defendants could therefore pray them in aid when notionally

> negotiating a fee for use of the Red Triangle access. By contrast, what the defendants wish to do in the present case is to rely on the possibility of placing the hoarding entirely within No.67, not as an alternative to the admitted trespass, but as a means of eliminating it. Such a procedure cannot be legitimate, because it would subvert the basis of the negotiation".

38.
Mr Michael Silverleaf QC, who appeared for 32Red with Mr Tom Moody-Stuart, argued that this case lends support to 32Red's position. I do not agree. As Henderson J said, "any ability on the part of a trespasser to achieve the object of the trespass by alternative means is a factor which must be taken into account in the hypothetical negotiation", but the alternative must "be one which is consistent with the trespass and can co-exist with it". The parties are to be assumed to have made a deal, and anything inconsistent with this hypothesis cannot be relevant. The judge approached matters on the basis that the hoarding would simply have been moved off the claimant's land and, hence, on a basis that was inconsistent with the parties having arrived at a deal for it to remain on the claimant's land. Far, however, from saying that alternatives open to the defendant are always irrelevant, Henderson J said in terms that the existence of such an alternative is "a factor which must be taken into account in the hypothetical negotiation". He also commended paragraph 17 of Patten J's judgment in Sinclair v Gavaghan (quoted in paragraph 38 above).

39.
The other case on which Mr Silverleaf particularly relied was The United Horse Shoe and Nail Company Ltd v John Stewart & Co (1888) LR 13 App Cas 401, where the pursuer's patent for a machine for making horse-shoe nails had been infringed. The defenders argued that they could have made similar nails without infringing the patent and hence that the pursuer had suffered no loss, but the House of Lords decided otherwise. Lord Macnaghten said (at 415):

> "The decision in the patent action and the minute of admission in the present case establish beyond question that in selling the 'Shoe' brand nails, the respondents infringed the appellants' rights. The sale of each and all of those nails was unlawful. It appears to be beside the mark to say that the respondents might have arrived at the same result by lawful means, and that, without infringing the appellants' rights, they might have produced a nail which would have proved an equally dangerous rival of the 'Globe' nail".

It is noteworthy that the pursuer's case was that "in all probability [it] would have effected all these sales if the [defenders] had not effected them, and consequently obtained the profit thereon" (see 406). The case thus falls within the first of the three categories outlined by Lord Wilberforce in the General Tire case (as to which, see paragraph 23 above).

40.
The principle stated by Lord Macnaghten was considered by Arnold J in Force India. Arnold J said:

> "426 Counsel for the corporate defendants argued that this principle only applied to the first type of case identified by Lord Wilberforce in General Tire v Firestone, and not to the third type of case. More importantly, he submitted that, whatever might be the position with respect to patent infringement, the principle certainly did not apply to the third type of case in a breach of confidence claim. He argued that, as a matter of logic, in

assessing the licence fee or royalty that would be negotiated between a willing licensor and willing licensee each making reasonable use of their respective bargaining positions, the availability or otherwise of the information from an alternative, lawful source was a highly material consideration. He further argued that, as a matter of authority, this analysis was supported by Seager v Copydex (No 2) and Dowson & Mason v Potter. Counsel for Force India had no convincing answer to this submission, and I accept it.

427 Counsel for the corporate defendants also submitted that, where the information is ‘nothing very special’, then compensation should be assessed by reference to a consultant's fee as opposed to a reasonable licence fee or royalty. I do not accept this submission, which appears to me to be inconsistent with the submission I have just accepted and with Dowson & Mason v Potter. If the information could have been readily obtained by the defendant by employing a competent consultant at a fee of £x, then prima facie that would be the sum that would be agreed between a willing licensor and willing licensee. In other words, these are not two different measures. Rather, the consultant's fee is the key input into the assessment of a reasonable licence fee. By contrast, if the information was not readily available from another source, then the willing licensor and willing licensee would negotiate a higher fee or royalty. The more inaccessible the information, and thus the more difficult it would have been for the defendant to obtain it by lawful means, then the higher the fee that will be payable, other things being equal”.

41.
Arnold J thus concluded that Lord Macnaghten’s comments are not applicable to a breach of confidence case within the third of Lord Wilberforce’s three categories (i.e. where it is necessary to consider what price could reasonably have been charged for permission to carry out the infringing acts). I cannot see that they can be applicable, either, where, as in the present case, damages are sought on the basis of the user principle for infringement of trade mark rights. In fact, I should not have thought that they would apply to any case within the third of Lord Wilberforce’s categories. Lord Wilberforce himself said of cases in that class that the parties “bargain as they are, with their strengths and weaknesses”, and warned against rejecting matters of which either side “would necessarily and relevantly take account when seeking agreement” (see paragraph 33 above). If the parties to the hypothetical negotiation would have had in mind the fact that the defendant had an alternative course of action open to him, it seems to me that the Court must also do so.

42.
In short, I do not accept that “the availability of a non-infringing alternative is not a relevant factor in the calculation of a reasonable royalty” in the present context. If the parties can be expected to have taken such an alternative into account in their hypothetical negotiation, it appears to me that I must do so as well. Further, I do not think an alternative need have had all the attributes of the 32Vegas name to be relevant. In Sinclair v Gavaghan, an alternative access route was considered important even though it would have been less convenient. Similarly, it seems to me that in the present case what matters is what impact the possibility of re-branding would have had on the hypothetical negotiation, not whether a substitute mark would have shared the attributes of “32Vegas”.

The parties’ positions

43.

32Red's case is that it should be awarded an amount equal to 30% of the NGR for the 32Vegas/21Nova casino in respect of the period of infringement and six months thereafter (i.e. a total of about 13 months). That would amount to something of the order of £5 million. The defendants' position is very different. They maintain that an award of between £25,000 and £50,000 would be appropriate. Such a figure would, they claim, represent a reasonable outcome of hypothetical negotiation at the relevant date.

Witnesses

44.

There was oral evidence from four witness of fact. I have already mentioned two of them: Mr Ware (32Red's founder and chief executive) and Mr Murphy (the general counsel and company secretary of William Hill plc). The others were Mr Jonathan Hale, 32Red's finance director, and Mr Cathal McCarthy, the chief financial officer of William Hill Online. Mr Silverleaf fairly accepted that Mr Murphy was demonstrably trying to assist the Court and that Mr McCarthy was an honest and helpful witness. I also consider that Mr Ware and Mr Hale gave evidence truthfully, in accordance with their recollections. That is not, though, to say that I regard Mr Ware's evidence as accurate in every particular. He himself said that he found it very difficult to think what he would have been saying in a hypothetical negotiation.

45.

Each side also called an expert witness. As already mentioned, 32Red's expert was Mr Bezant. The defendants called Mr Richard Boulton. Both experts were impressive. Each of them gave clear and helpful evidence.

The subject matter of the hypothetical licence

46.

Several points relating to the subject matter of the hypothetical licence were aired.

47.

In the first place, Mr Silverleaf argued that the notional negotiation would have been for the consent of the trade mark proprietor to the infringement of the mark in question, namely, 32Red. He submitted that it is not open to a defendant to claim that it has not committed a particularly heinous infringement because it was only using a confusingly similar sign rather than one identical to the mark in question.

48.

It seems to me, however, that it would be quite wrong to approach matters on the basis that the hypothetical licence was to use the name 32Red rather than 32Vegas. I agree with Mr Henry Carr QC, who appeared for the defendants with Miss Lindsay Lane, that the intellectual property right that entitled 32Red to insist on a licence needs to be distinguished from the grant under the hypothetical licence. The fact that 32Red owned trade marks in respect of the name 32Red entitled it to object to the defendants' use of the name 32Vegas. The hypothetical licence would, however, have been to use the name 32Vegas rather than "32Red" itself. The parties would have approached matters quite differently had William Hill Online been seeking permission to use the very name under which 32Red was operating.

49.

A passage from Arnold J's judgment in the Force India case is noteworthy in this context. At paragraph 436, Arnold J said this:

> "The defendants contend that the subject matter of the negotiation would be the actual confidential information found to have been misused by Aerolab/FondTech. Force India contends that the subject matter would be the entire aerodynamic design of the Force India car. The basis for the latter contention is that Aerolab and FondTech had (almost) all of the aerodynamic design of the Force India car available to them to use as a reference, even if they only used a small proportion. I reject that contention, since it would mean that Aerolab/FondTech would pay the same licence fee regardless of the extent of the misuse. This is contrary to principle, authority and basic fairness".

50.
In my view, it would similarly make no sense to proceed on the basis that 32Red is to be assumed to have licensed William Hill Online to use the name 32Red as opposed to the name 32Vegas.

51.
Secondly, there was debate as to the length of the hypothetical licence. 32Red's position is that the parties should be taken to have negotiated on the basis that the licence was to be for an indefinite, or at least a lengthy, period. In this connection, Mr Bezant said that there was nothing to suggest that the parties would have agreed at the outset that a licence should be for the actual period of William Hill Online's infringement (viz. some seven months). Mr Bezant was also instructed to assume that the end date of the hypothetical licence might be later than that on which William Hill Online ceased to use the name 32Vegas, on the footing that existing customers of the 32Vegas casino are likely to have continued to play at William Hill Online's casinos for a period.

52.
My own view is that the hypothetical licence must be for the period of infringement. The hypothetical licence has to be in respect of what William Hill Online actually did. It in fact used the name 32Vegas for about seven months. The parties are therefore to be assumed to have entered into a licence for that period. On the other hand, they are also, as it seems to me, to be taken to have been aware that William Hill Online could continue to derive benefits from its use of the 32Vegas name for some time after the end of the seven-month period and to have borne that in mind when negotiating payment for the licence.

53.
A third issue relates to exclusivity. 32Red maintains that the hypothetical negotiation would have been in respect of a "de facto exclusive licence". Mr Carr, in contrast, argued that the hypothetical licence would have been non-exclusive.

54.
On this issue, I agree with 32Red. Subject to the point I shall mention in the next paragraph, William Hill Online enjoyed exclusivity in practice, and it seems to me that the hypothetical licence should, so far as possible, be assumed to accord with the reality. To echo what Mr Carr said in a different context, the Court is not required to make such false assumptions as to the subject matter of the licence. Further, there is force in Mr Bezant's comment in cross-examination that "as a practical matter, granting a licensee the use of the phrase '32Vegas' would be a one-off transaction because no one else would want to come and use that name and you would not want to license someone else".

55.
Mr Carr argued that William Hill Online had not enjoyed complete exclusivity. He pointed out that 32Red used the sign 32Vegas as a Google adword for 20 months (including the period of the defendants' infringement) so that any internet user who typed "32Vegas" into the Google search engine would be presented with a sponsored link to the 32Red.com website. As, however, Henderson J recorded in his judgment:

> "Bidding on 32Vegas as an adword resulted in a total of 251 users clicking on the 32Red advertisement, at a cost to 32Red of £884.04. Of those users, 20 signed up as members of the 32Red site, and 10 of them played for real money, generating a 'gross win' of £1,795.44".

In the circumstances, I do not think 32Red's adword campaign impinged seriously on the de facto exclusivity that William Hill Online otherwise enjoyed.

56.
A fourth area of dispute relates to quality control provisions. It is 32Red's case that the hypothetical licence must be assumed not to have included quality control provisions such as are commonly found in actual licences. In this connection, Mr Bezant said:

> "In the absence of such provisions (or if it were expected, perhaps based on past behaviour, that a licensee was going to operate outside of such provisions), I would expect the royalty rate to increase (and potentially markedly) to compensate for the greater risk to the licensor of licensing the trade mark to a user, but without certain quality control protections in the licence terms".

In a similar vein, Mr Murphy said in cross-examination:

> "There will be a price for one set of restrictions and if we have got flexibility that might be something we value and will be prepared to pay a lot more for".

57.
32Red's submission is inspired at least in part by the fact that there is evidence of complaints being made about the 32Vegas casino. Henderson J referred to these in paragraph 20 of his judgment. He there quoted the following passage from evidence given by the head of gambling regulation in Gibraltar:

> "11. In early 2009 I became aware that we were receiving an unusual number of complaints about certain WHG products. Where we may have received no or only an occasional complaint each month about a William Hill product we were suddenly receiving one or two complaints each week. This was a totally disproportionate number. The complaints were spread across a number of WHG products, including the remote casino websites 32vegas, Eurogrand and Blackpool Club Casinos. As these complaints had not been through the full WHG customer handling process they were all advised to re-contact WHG and exhaust the internal complaints process. However, the stream of complaints continued and though only at the one or two per week level, this was an unprecedented level of complaints about a single operator.

> 12. I also became aware of ‘internet chat’ making similar complaints and was so concerned by the volume and nature of the complaints that I personally intervened and wrote to WHG executives and asked them to take a direct interest in the matter. This led to a meeting between myself and the WHG chief executive and staff and the establishment of ongoing monitoring and liaison arrangements about the matter.
>
> 13. The reason for the complaints, in general, was that the terms and conditions in respect of bonus awards (free plays) were not understood by a substantial proportion of customers and they felt they had been tricked into accepting terms and conditions that meant they had to invest and gamble substantially more money than they expected in order to gain any direct benefit from the award. Such was the scale of complaints that within a short period of time WHG agreed to change these arrangements and improve staff training. Subsequently the flow of complaints was substantially reduced”.

58.
It seems to me that, once again, the assumptions should accord with the reality. The hypothetical licence should therefore be taken to have permitted William Hill Online to use the terms and conditions it in fact used. On the other hand, I do not think it would be appropriate to assume that the parties were negotiating for a licence that would leave William Hill Online free to misbehave to whatever extent it might theoretically have liked.

Comparables

59.
Mr Bezant sought to determine the royalty payable in respect of the hypothetical licence principally by reference to comparables. He identified four matters as key comparables. The four were:

i)
A licence agreement between WHO and the first and second defendants dated 30 December 2008 (“the William Hill Licence”);

ii)
A report prepared by Deloitte on a proposal for the transfer of the non-UK rights to the William Hill trade mark and domain names to the first defendant (“Deloitte B”);

iii)
A trade mark and domain name licence agreement between (1) Genuity and (2) the first and second defendants dated 30 December 2008 relating to use of the portfolio of domain names and trade marks acquired by Genuity from Crown Solutions (“the Genuity Licence”); and

iv)
An undated licence agreement (“the Bravo Agreement”) between 32Red and TTRE Limited (“TTRE”).

60.
I shall consider these in turn.

The William Hill Licence

61.
The William Hill Licence related to use of the William Hill trade marks. By the licence, WHO granted the first and second defendants licences to use the trade marks in connection with the business that

WHO and Playtech had agreed that the first and second defendants should operate. The licence in favour of the first defendant, which related to use outside the United Kingdom, was expressed to be royalty-free, but that in favour of the second defendant as “UK Licensee” provided for a royalty of 34% of “Net Gaming Revenue” derived from UK players. Both licences were stated to be exclusive and perpetual.

62.
In advance of the William Hill Licence being entered into, Deloitte & Touche LLP (“Deloitte”) had been instructed “to comment on the acceptability of the proposed royalty payments”. Deloitte noted in their report (which was referred to as “Deloitte A”) that the 34% rate had been determined by William Hill’s management applying the “residual profit split methodology” and undertook an analysis of whether the approach taken was “consistent with an arm’s length arrangement”. Deloitte concluded that William Hill management had “applied a methodology consistent with the OECD Guidelines for Multinational Enterprises and Tax Administrations”. In the course of their report, Deloitte commented that the William Hill trade mark was “a fundamental driver of the internet businesses in the UK and the business could not operate without it”.

63.
Mr Boulton disputed that the William Hill Licence is an appropriate comparable. He argued that there are at least five key differences between that licence and the hypothetical licence between 32Red and William Hill Online. First, the William Hill Licence was not an arm’s length agreement but entered into between related parties in the context of a joint venture. Secondly, a household name such as William Hill is not comparable in size or importance to the mark 32Vegas or even the 32Red mark. Thirdly, the William Hill brand was to be the core brand of a website that was not part of a carousel whereas the 32Vegas brand was to be used as part of a carousel of online casinos. Fourthly, the 32Vegas casino could have been re-branded with comparative ease but it would not have been practicable to dispense with the William Hill name. Fifthly, the William Hill Licence, unlike the hypothetical licence, was exclusive and perpetual.

64.
I agree that the William Hill Licence is of no real assistance in the present context. While there is some force in each of Mr Boulton’s points, three matters in particular weigh with me. In the first place, the subject matter of the William Hill Licence was too different from that of the hypothetical licence to allow meaningful comparisons to be made. A transaction relating to a house in Knightsbridge would give no guidance as to the value of even an equivalent property in Dagenham unless there were known to be a specific relationship between the two. Similarly, evidence as to the value of a licence relating to the William Hill brand can provide no insight into the value of a licence relating to “32Vegas” or even “32Red” in the absence of other evidence as to the relationship between the brand values. A second point arises from the fact that it was open to William Hill Online to abandon the 32Vegas name and adopt a replacement. No comparable opportunity existed as regards the William Hill brand: in cross-examination, Mr Bezant accepted that there was “not a meaningful design around option to rebuild a William Hill brand in the UK”. This distinction would have undermined any comparison with the hypothetical licence even if its subject matter had been similar to that of the William Hill Licence. Thirdly, the William Hill Licence was not negotiated on an arm’s length basis. Mr Silverleaf pointed out that (a) the arrangement had not been challenged by the tax authorities and (b) it had received support from Deloitte. Neither consideration strikes me as all that powerful. In the end, the materials relating to the William Hill Licence appear to me to amount to

little more than untested hearsay expert opinion as to whether a 34% royalty rate was consistent with the relevant OECD guidelines.

Deloitte B

65.
Deloitte B, which dates from September 2008, was concerned with a proposal for non-UK rights to the William Hill trade mark and domain names to be transferred to the first defendant. As was explained in the report, its purpose was to determine an appropriate arm's length valuation for the intangible assets that were to be transferred. Deloitte undertook valuation exercises using both a relief from royalty and cost-based approaches and arrived at a mid-point figure of £5.8 million. Deloitte's relief from royalty work produced a minimum value of £3.1 million and a maximum of £7.7 million. The calculations assumed a royalty rate of 42% for Cyprus, Ireland and Malta and a rate of either 42% or 30% for Greece. No royalty was assumed in respect of other countries, Deloitte's researches having indicated that "outside of the UK it is only in Ireland, Greece, Malta and Cyprus where the William Hill trademarks and associated goodwill currently create any value for the William Hill group".

66.
In his first report, Mr Bezant calculated that a £6 million price would be equivalent to the purchaser paying a royalty of about 12% of Gross Win under a perpetual licence. He suggested that this served as a broad indicator of value when assessing the value of 32Red's non-UK position. In cross-examination, he explained that Deloitte B was useful as demonstrating that "the value ascribed to brands that are not necessarily well known but still generate non-trivial amounts of revenue can be non-zero and it can cost significant sums to recreate them".

67.
Mr Boulton dismissed Deloitte B on a number of grounds. Among other things, he argued that the report provided evidence that a royalty "can be of only nominal (or zero) amount in countries in which the brand is not well known" and that "[t]he 32Vegas brand is a much less valuable proposition than the William Hill brand". He also said that he had been instructed that the proposal in respect of which Deloitte B was prepared never ultimately took place.

68.
In my view, Deloitte B, like the William Hill Licence, does not help to any significant extent with the task before me. Since the proposal it was considering did not in the event take place, it plainly represents no more than untested hearsay expert opinion. The differences between what was planned and what the hypothetical licence would have involved are, moreover, very substantial: apart from anything else, the William Hill brand is, as already mentioned, very different from either the 32Vegas name or even the 32Red brand. Perhaps, as Mr Bezant argued, the report can be said to indicate that "the value ascribed to brands that are not necessarily well known but still generate non-trivial amounts of revenue can be non-zero", but that does not advance matters much.

The Genuity Licence

69.
The Genuity Licence, like the William Hill Licence, was entered into in the context of the joint venture between the William Hill group and Playtech. By it, Genuity licensed the first and second defendants to use a range of domain names and trade marks, including "32Vegas". The licences granted were stated to be exclusive and perpetual, and a royalty of 5% of NGR was payable.

70.
The royalty rate had been considered by Deloitte in Deloitte A. Deloitte commented:

> "The royalty rate for the use of the Playtech owned brands will be 5%. Whilst we have not done any specific analysis, in our opinion a royalty of this size is not disproportionate for the use of a business to consumer brand within the entertainment sector".

71.
Mr Boulton disputed that the Genuity Licence is a useful comparable for four main reasons. First, the Genuity Licence was not, he said, an agreement between independent entities but rather appeared to have been a means of extracting profits from the joint venture between the William Hill group and Playtech. Secondly, the Genuity Licence, in contrast to the hypothetical licence, was exclusive and perpetual. Thirdly, the Genuity Licence encompassed not merely the 32Vegas brand but a variety of brands, enabling William Hill Online to operate a casino carousel. Fourthly, Mr Boulton suggested that the 5% royalty overstated the value of the marks being licensed as compared with the software Genuity was contributing, for which a 5% royalty was also to be paid. "[A] proper allocation of the contribution of the royalty between Genuity's intangible assets would," Mr Boulton considered, "have resulted in a much smaller royalty being allocated to Genuity's brands".

72.
For my part, I think the Genuity Licence is of rather limited significance. The position might have been different had it been negotiated on an arm's length basis, but it was not, and Deloitte's comments once again represent untested hearsay. The assistance to be derived from the report is limited further by (a) the fact that Deloitte stated in terms that they had not undertaken any specific analysis of whether a royalty of this size was "disproportionate for the use of a business to consumer brand within the entertainment sector" and (b) the brevity of their treatment of this rate. In cross-examination, Mr Bezant said that it was not clear to him how the 5% rate had been arrived at.

73.
Another problem is that it is difficult to know how the cluster of brands comprised in the Genuity Licence would have compared in value to that of "32Vegas" alone. As Mr Boulton observed:

> "While it would have been very difficult for the Joint Venture to operate the carousel if it had access to none of the [Genuity Marks], the operation of the carousel is unlikely to have been materially affected by the absence of any one brand".

In those circumstances, it is reasonable to suppose (to quote Mr Boulton again) that "the entire carousel of brands operated by Genuity was considerably more valuable than any individual brand". However, it is not obvious how large an adjustment should be made for this.

74.
A further point arises from Deloitte's use of a residual profit methodology. Mr Boulton calculated that application of that approach to 32Red would have produced a royalty of significantly less than 1%. Mr Bezant criticised Mr Boulton's figures as being a "complete apples and orange comparison", but he had not undertaken an equivalent analysis himself. His position was, I think, essentially that it was appropriate to look at the overall transaction rather than its rationalisation. Where, however, a transaction has not been entered into on an arm's length basis but rather by reference to accountants' calculations, it seems to me that it is right to have regard to the underlying logic as well as the end result.

The Bravo Agreement

75.
The Bravo Agreement was prepared in the context of a proposed joint venture between 32Red and Bravo Media Services Limited ("Bravo"). The scheme related to the establishment an online gambling business for Spanish customers. The business was to be operated through TTRE (an acronym of Thirty-Two Red España), in which 32Red and Bravo were each to have a 50% interest. Bravo was to contribute local marketing and management. 32Red was to contribute its brand, the games platform, bonuses and all administrative and systems support.

76.
A draft joint venture agreement was prepared. This provided for TTRE to enter into further agreements: the Bravo Agreement and a services agreement with Bravo. A draft of the latter agreement stated that Bravo was entitled to 50% of "Gross Profit" for its services. A draft of the former agreement provided for 32Red to retain 50% of "Gross Profit" as a "royalty" in consideration of its grant of a licence to use its trade marks.

77.
The position had been explained in this way in heads of terms:

> "The Gross Profit generated by the Business shall be divided equally 50:50 between Bravo Media and 32Red with 32Red remitting 50% to TTRE under the licence agreement and TTRE remitting the same sum to Bravo Media under the management and service agreement. 32Red will retain the other 50% as its share of Gross Profit…. Consequently TTRE shall not make any profit itself and shall remain cash neutral".

78.
Mr Bezant and Mr Boulton each gave evidence about how "Gross Profit" (as defined in the draft licence agreement) related to NGR. On the basis of the sample calculations included in the draft agreement, 50% of "Gross Profit" could have been expected to amount to between 18.0% and 22.5% of NGR. Since the fact that the joint venture had traded emerged for the first time in cross-examination, it was impossible for either expert to comment on how things had worked out in practice.

79.
In the event, the joint venture did not proceed all that far. In the light of regulatory changes and economic conditions in Spain, 32Red decided against pursuing the venture. As, however, was explained by Mr Ware, the venture was operated for a number of months (six or so perhaps) before it was abandoned.

80.
Mr Bezant noted that the Bravo Agreement, unlike the hypothetical licence, can be understood as relating to a licence for 32Red's "branded business" rather than a bare trade mark. On this basis, he accepted that part of the 50% of "Gross Profit" to which 32Red was to be entitled should be allocated to administrative and other functions. He argued, however, that analysis to be found in Deloitte A suggests that only a low proportion of the profits should be so allocated. He also noted that people do not ascribe high profit margins or returns to the administrative or back office functions of most businesses.

81.

Mr Boulton disputed that the Bravo Agreement is properly comparable to the hypothetical licence. The Bravo Agreement differed, he said, from the hypothetical licence in a range of ways. Among other things, he queried not only whether the proposed royalty rate reflected merely the value of the brand being licensed but whether it necessarily represented an arm's length rate. In this regard, he said:

> "It is not clear to me that, in an arm's length transaction, a third party would pay a substantial royalty for the use of the 32Red brand in Spain, in isolation from the other intangible assets that 32Red was expected to provide".

Mr Boulton observed too that, whereas the 32Red trade mark was at the heart of the joint venture between 32Red and Bravo, little emphasis was placed on the particular brands that William Hill Online was to use. He also made the point that the 32Vegas brand (the subject of the hypothetical licence) was less valuable than the 32Red brand.

82.
In the end, I do not think that the Bravo Agreement is of significant assistance. It is too different from the hypothetical licence to provide any useful guidance as to what the parties to the latter would have agreed.

<u>Conclusion on comparables</u>

83.
My overall view is that comparables are of very little help in the circumstances of the present case.

<u>Economic benefits</u>

84.
Mr Boulton approached matters rather differently to Mr Bezant. The approach Mr Boulton took is rooted, not in comparables, but in the economic benefits that the parties could have expected to derive from the hypothetical licence. His thesis was that, in the absence of a good comparable agreement, the parties would instead have focused on the anticipated economic benefits.

85.
With regard to the benefits that William Hill Online stood to obtain, Mr Boulton said this:

> "Due to its use of the carousel model, William Hill Online would have expected that any negative impact on its revenues of rebranding the 32Vegas website would be small. Further, William Hill Online would have expected to be able to create an alternative brand cheaply, as it in fact did.
>
> At the time of the formation of the Joint Venture, which would have been around the time of the hypothetical negotiations, the management of William Hill plc placed little value on the 32Vegas name. The website's previous operator had stated that the brand was not material to the operations of the carousel.
>
> My view that William Hill Online would have expected that the financial impact of rebranding the website would have been low is supported by the fact that I have seen no evidence that the actual rebranding of the 32Vegas website as 21Nova had a negative financial impact on William Hill Online's profitability.

> In my view, William Hill Online would have expected that the total costs of rebranding would be low, and in the hypothetical negotiations would not have agreed to pay a royalty for a licence to use the Vegas Signs significantly in excess of such costs".

86.
Mr Murphy, who would have had responsibility for conducting the hypothetical negotiation on behalf of William Hill Online, said this in a witness statement about what William Hill Online might have been prepared to pay:

> "In the circumstances, we might have been prepared to pay a one-off fee for the convenience of using the name [32Vegas], but that would have been no more than £25,000 to £50,000. That figure could be arrived at by a notional number of players that might come to 32Vegas from 32Red. It recognises the absence of any evidence of players joining 32Vegas from 32Red in the time the 32Red and 32Vegas marks had been in the market together, and it would have been hard to justify more".

Mr Murphy also said that the joint venture's marketing team had come up with the 21Nova name internally, without using external advisers. He accepted that there is "inevitably some cost in changing the name", but he said that this was low.

87.
Mr Boulton's reasoning clearly depends on the fact that re-branding would have provided William Hill Online with an alternative, albeit a less convenient one, to taking a licence to use the name 32Vegas. As mentioned earlier, 32Red disputed the relevance of such an alternative. For the reasons given above, however, I take a different view. It seems to me that any impact that the possibility of re-branding would have had on the hypothetical negotiation has to be taken into account.

88.
Mr Bezant queried how far the possibility of re-branding is significant to an assessment of the comparables. He suggested that comparables on which he relied "reflect (in principle) the availability of alternatives". To my mind, however, the fact that William Hill Online could change the 32Vegas casino's name would have been central to the hypothetical negotiation. Common sense suggests that it would have made William Hill Online reluctant to pay much more for a licence than the costs that would be incurred in respect of a name change unless "32Vegas" was likely to be more attractive to customers than a substitute name would be. Further, William Hill Online can be expected to have stressed to 32Red in the hypothetical negotiation that it was open to it (William Hill Online) to re-brand at relatively little expense.

89.
Was, then, the 32Vegas name likely to be more attractive than a replacement name? Passages from Henderson J's judgment might be said to point in that direction. In paragraph 100 of his judgment, Henderson J concluded that there was "a likelihood of confusion on the part of the average online gambler in 2009 between the Vegas signs and [32Red's] marks". Later in his judgment (in paragraph 133), Henderson J said:

> "Is there evidence of a change in economic behaviour brought about by the use of the Vegas signs? … The similarity of their names, and the fact that 32Vegas was always operated as one of a number of linked casinos on the carousel model, lead me to conclude that an average online gambler would have been far readier to switch his

> allegiance from 32Red to 32Vegas, or to play with 32Vegas in the first place, than he would have been in the absence of such similarity. These are changes in economic behaviour, and I am satisfied on the balance of probabilities that such changes are likely to have occurred to a significant extent".

The 32Vegas name will thus have attracted into the carousel of which it was a part some gamblers who would otherwise have played with 32Red.

90.
Mr Bezant made a separate point. Noting that the 32Vegas casino accounted for 31% of the carousel's Gross Win and NGR for the period of infringement, he suggested that "32Vegas" was a particularly significant brand for William Hill Online at that time. The fact that "32Vegas" was "large in size compared to the other Uniplay Brands" indicated that it was "a more valuable brand than other Uniplay Brands". In cross-examination, Mr Bezant explained:

> "I think that brands are important in online gaming environments to differing degrees, but they are not wholly unimportant and … in the defendants' use of what is being termed the 'carousel model' they appear to use some brands more than others to drive people into the model itself. So, if there is a gatekeeper brand, to introduce another unfortunate term, that would have a role different to another brand".

91.
There are other matters, however, pointing in the opposite direction. In the first place, Henderson J did not need to determine how many customers would be confused. Comments made by Mr Boulton during his cross-examination are relevant here. He said:

> "Clearly, I do not want to be in the position of even suggesting that I am seeking to disagree with the trial judge, but I do think it is a matter of looking through a different lens. It was my understanding of what the trial judge was having to do, was look at likelihood of confusion sufficient to support what was being alleged in terms of trade mark infringement. I do not have a way of quantifying what his findings were in terms of ten, 20, 100, 1,000 customers".

92.
A second point is that confusion can operate in both directions. If gamblers may have come to William Hill Online because of confusion between "32Vegas" and "32Red", they may have gone to 32Red rather than the 32Vegas casino for the same reason. Use of the 32Vegas name could therefore have been expected to result in lost customers as well as extra ones.

93.
Thirdly, the benefits to be gained from confusion with 32Red will have been limited for reasons of geography. 32Red obtained some 74% of its revenues from the United Kingdom and so is likely to have been much better known there than elsewhere in the world. In contrast, the 32Vegas casino derived the majority of its revenues from outside the United Kingdom. As Mr Boulton observed, that would have tended to limit the benefit to the 32Vegas casino of any perceived association with 32Red.

94.
Fourthly, the various brands in the carousel were seen at the time as broadly interchangeable. As noted above, Henderson J concluded that the reputation of individual brands was "comparatively

unimportant” in the carousel business model and that “the reputation of individual casinos was never of any particular importance to William Hill Online, any more … than it had previously been to Crown Solutions”. Henderson J also accepted evidence that the particular brands that Uniplay operated were “not considered important”. Before me, Mr Murphy confirmed that particular brands were “barely mentioned during the course of discussions in the creation of the joint venture” and were not viewed as important. The carousel model relied instead on “attractive bonuses and an active affiliate programme”.

95.
Mr Silverleaf sought to dismiss such comments as merely subjective perceptions rather than representing objective fact. However, Playtech in particular might have been expected to know if the 32Vegas name was important to its business, and there is no indication that it saw matters that way. As Henderson J noted, the public announcement of the joint venture described the business of Crown Solutions as having “multiple low-key brands”.

96.
Fifthly, the fact that the 32Vegas casino accounted for a larger than average share of the carousel’s revenue can be explained by the way in which it was promoted. At the trial before Henderson J, there was evidence about how the 32Vegas brand was used from a Mr Cole-Johnson, the gaming director of William Hill Online. He said in cross-examination:

> “32Vegas and Eurobrand are brands that we lead on in our online marketing on William Hill. So it is going to attract more players, and the other casinos are the ones that we move the players around to”.

97.
Sixthly, it is not apparent that the re-branding of the 32Vegas casino was adverse to William Hill Online in the event. Mr Boulton said in cross-examination:

> “Overall, one can say that wherever one looks in the stand-alone casinos or the Genuity casinos or 32Vegas, it does not appear as though the business missed a beat as a result of the re-branding”.

When it was put to him that that the data did not allow him to assess what was driving gamblers’ decisions, he explained:

> “I am interested in the overall impact on the business. That is what, in my view, is relevant to the hypothetical negotiation between businesses, who would be looking at: ‘What will happen to our net revenue? What will happen to our profits?’”

98.
A problem in this context is that the financial records that the defendants were able to provide are unsatisfactory in a number of respects. The only records dealing with the performance of individual casinos within the overall carousel contain inexplicable anomalies and inaccuracies. Mr McCarthy expressed confidence in the figures in the nominal ledger, but these are not broken down by casino. Mr Bezant said that he considered that the information disclosed by the defendants makes it difficult to analyse the relative performance of “32Vegas” and “21Nova”. During cross-examination, he said:

> “If you are trying to understand the impact on the customers of different brands, the use of different brands, different business models and brands within those business models, looking at an aggregated financial statistic is not going to give you insight”.

99.
There is force in the points Mr Bezant made, but, on balance, I have been persuaded by Mr Boulton that the (admittedly imperfect) evidence tends to suggest that the change of name from “32Vegas” to “21Nova” did not cause William Hill Online any significant damage. Even were that wrong, it would remain the case that the evidence does not establish that the re-branding damaged William Hill Online’s business.

100.
That leads to the next point. Mr Silverleaf argued that the defects in the defendants’ financial records are such as to mean that a valuation by reference to economic benefits is not practical. Support for this view is to be found in Mr Bezant’s evidence. For example, Mr Bezant explained in one of his reports that he had not applied the economic benefits approach “due to the limited disclosure of only high-level financial information by the Defendants and the inherent complexities of the online gaming industry”.

101.
On balance, however, it seems to me that the deficiencies in the available financial information do not deprive the economic benefits approach of value. To the contrary, I consider that reference to economic benefits provides the best starting point when considering what the parties to the hypothetical negotiation would have agreed. As I have already indicated, the evidence seems to me to be good enough to allow tentative conclusions to be drawn as to whether changing the 32Vegas casino’s name was damaging to William Hill Online. Other points made in this section of the judgment above do not depend on either party’s financial records. The defendants do not need to rely on such records to make the point, for instance, that the possibility of re-branding would have been of central importance in the hypothetical negotiation.

102.
Turning to 32Red’s position, in Sinclair v Gavaghan Patten J observed that the claimants “would not have been able to demand a fee which was disproportionate to the actual financial advantages of using the Red Triangle as opposed to postponing the works or creating an alternative access point”. Similarly, 32Red, as a hypothetical willing licensor, is to be taken, I think, to have recognised that it could not insist on being paid a sum out of proportion to the financial advantages that the defendants stood to obtain by using the name 32Vegas rather than re-branding at once. That 32Red would have been willing to accept such a sum is further indicated by a number of matters. In the first place, 32Red’s profits were relatively modest when the defendants were using the 32Vegas brand: profits for the six months to 30 June 2009 were reported as £233,777. Even the £50,000 that Mr Boulton suggested as a reasonable royalty would therefore have served to increase the company’s profitability considerably in percentage terms. Secondly, confusion between the 32Red and 32Vegas brands could, as already mentioned, potentially have resulted in it gaining customers as well as losing them. Thirdly, 32Red was not yet ready to expand its non-UK activities. While Mr Ware explained that it aims to enter new markets in the future, it does not seem to have been inhibited in doing so by the defendants’ use of the 32Vegas name during 2009. Fourthly, the contemporary documents do not show 32Red to have seen the 32Vegas casino as acutely damaging to it at the time. For example, 32Red’s interim results for the six months ended 30 June 2009 referred to “challenging economic conditions”,

not to damage from the 32Vegas casino, and the 32Vegas casino did not feature in 32Red's board minutes until January 2010.

103.
At points, there was reference to damage that 32Red might have sustained as a result of the defendants' use of the 32Vegas name. There were suggestions, for example, that 32Red might have lost players or had its reputation impaired. 32Red has, however, elected to rely on the user principle rather than seeking damages on any other basis. That being so, matters such as those referred to in the first sentence of this paragraph could be relevant only if and so far as they cast light on what the parties to the hypothetical negotiation might have agreed.

Conclusions

104.
In Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson 1914 S.C. (HL), which concerned the infringement of a patent, Lord Shaw of Dunfermline spoke (at 29-30) of the assessment of damages sometimes involving "the exercise of a sound imagination and the practice of the broad axe". Something of this approach is needed in the present case. It cannot be said of any specific figure that it is definitely what the parties to the hypothetical negotiation would have agreed by way of royalty or licence fee.

105.
As I have already said, the fact that William Hill Online had the option of re-branding seems to me to be of central importance. Even so, I think it likely that William Hill Online would have been willing to pay somewhat more than the £50,000 suggested by Mr Boulton. William Hill Online would have needed to factor in, not only the cost and inconvenience attached to re-branding, but the risk that doing so would disrupt the existing carousel. While individual brands were not considered important to the carousel model, William Hill Online could still, I think, have been expected to prefer to continue with the 32Vegas name, not least in case changing it had unexpected consequences. The parties to the hypothetical negotiation are also to be assumed to have in mind that William Hill Online (a) stood to derive benefits from using the 32Vegas name for some time after the expiry of the seven-month hypothetical licence (see paragraph 52 above), (b) would enjoy de facto exclusivity (see paragraphs 53-55 above) and (c) would be free to use the terms and conditions it in fact used (see paragraph 58 above).

106.
None the less, I do not think that the parties to the hypothetical negotiation would have agreed a figure very substantially in excess of £50,000. Doing the best I can, I have concluded that a licence fee of £150,000 is likely to have been agreed.

107.
£150,000 appears to represent between 1% and 1.5% of the 32Vegas casino's NGR for the period of infringement. That can be compared with the royalty of less than 1% that Mr Boulton reckoned would have been produced by applying the residual profit methodology that Deloitte used in relation to the Genuity Licence (see paragraph 74 above).

108.
An award of the scale proposed by 32Red would have been out of all proportion to the benefit that the defendants derived from their infringement of 32Red's marks and to any loss that 32Red could realistically be thought to have suffered.

109.

In all the circumstances, I shall award damages of £150,000.