

Flashlight decision illuminates compensation guidelines for unlawful use of IP rights

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The Supreme Court recently had to decide whether the infringer of a registered Community design (OGH 29 January 2019, 4 Ob 213/18d) had to hand over the entire net profit or just a share of profit earned due to its use of an infringed design.

Facts

The German plaintiff is one of the world's leading flashlight manufacturers and owner of the registered Community design RCD 000718598-0004 (RCD). In the context of a tender, in 2019 the defendant – an Austrian company and wholesaler for the plaintiff – was awarded a contract to supply Bundesbeschaffungs GmbH (BBG) with the plaintiff's flashlights. The flashlights were bought for the Ministry of Interior, police stations and fire departments and were chosen because they were the most suitable from a practical point of view as:

- they could be transported in a carrying device;
- their surface design ensured safe handling; and
- there was a device for fastening a lamp loop and other accessories (ie, a holster, carrying loop and signal cone).

The design or other aesthetic reasons were less important to BBG. At some point, the plaintiff stopped supplying its flashlights to the defendant in an attempt to get into a direct contractual relationship with BBG. Subsequently, the defendant procured several thousand almost identical flashlights (making some minor adjustments) from another source in order to meet its obligations towards BBG.

Proceedings

The plaintiff requested, among other things, that the defendant hand over all of the profits that it had made from the infringing flashlights. The claim was based on Section 34 of the Act on Design Protection. The defendant held that the plaintiff could claim only the share of profits earned from the use of the infringed design.

The first-instance court determined that a net profit of approximately €68,000 had been earned from the use of the infringed design (ie, sales proceeds minus prime costs, customs duties, transport and costs connected to accessories). It awarded the plaintiff approximately €56,000. The defendant appealed the decision. The appeals court:

- granted the appeal partly;
- reduced the net profit to €54,000 (the reason for the reduction was not disclosed in the published judgment); and
- ordered the defendant to hand over 10% of the net profit earned.

According to the appeals court, the plaintiff was entitled only to the share of the net profit which had been earned precisely due to the use of the registered Community design. The remainder of the net profit was to be kept by the infringer because it had been earned for reasons not attributable to the design of the flashlights (ie, the quality of its product and advertising efforts).

The plaintiff lodged an extraordinary appeal with the Supreme Court, which it accepted in order to clarify the legal situation but did not grant. The Supreme Court stressed that, although the EU Community Designs Regulation (6/2002) does not provide for an infringer's obligation to hand over

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unlawfully gained profits, Section 34 of the Act on Design Protection (via reference to Section 150 of the Patent Act) does. Therefore, a rights holder may either claim:

- the payment of a reasonable royalty; or
- where the infringer acted at least negligently:
 - double the reasonable royalty;
 - compensation for damages suffered by the rights holder; or
 - the profit that the infringer earned as a result of the infringement.

The Supreme Court pointed out that claims for handing over profits which were obtained through the infringement of IP rights are regarded as unfair enrichment claims. However, the plaintiff had to demonstrate – as opposed to an unfair infringement claim under general civil law – that the infringer acted culpably. It further stressed that in examining claims, the courts must look at the design and not the rights holder's product since the product's presentation is protected and not the product as such. Therefore, possible imitations of the plaintiff's flashlights (ie, the product *per se*) could not be considered. Consequently, the Supreme Court confirmed the appeal court judgment. It stated that the ruling corresponded to:

- the wording of the law, namely that it was "achieved as a result of the infringement";
- German case law (the doctrine regarding comparable provisions); and
- predominant learned opinion in Austria.

The Supreme Court also referred to Article 13 of the EU IP Rights Enforcement Directive (2004/48/EC), according to which a claim for damages must take into account any unfair profits made by the infringer, but does not require that the entire net profit of the infringer is considered.

The lower courts had assessed the share of the infringer's profits attributable to the infringed design according to Section 273 of the Code of Civil Procedure. Said provision allows the courts to estimate the amount of damages pursuant to its free conviction. This estimate may also be reviewed by the Supreme Court relying on the facts established by the lower courts. Since the lower courts had determined that the decisive criteria for choosing the plaintiff's flashlights were their easy manageability and not so much their design, the Supreme Court found no fault in the decision that just 10% of the infringer's profit was achieved due to the use of the registered Community design.

Comment

The Supreme Court's decision is of great practical importance: it gives IP rights holders clear guidelines regarding what to expect when claiming compensation for the unlawful use of their rights. Rights holders, in particular, those of designs, should examine carefully whether it makes more sense to claim twice the reasonable royalty instead of the infringer's profits. This holds true in particular if the selling point of a product is not so much the design, but other characteristics of the infringer's product.

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