

Neutral Citation Number: [2017] EWHC 746 (Ch).

Case No: HC-2014-000862

**IN THE HIGH COURT OF JUSTICE**  
**CHANCERY DIVISION**  
**CHANCERY**

Royal Courts of Justice  
Strand, London, WC2A 2LL

Date: 7<sup>th</sup> April 2017

**Before :**

**MR JUSTICE WARREN**

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**Between :**

**GENERAL NUTRITION INVESTMENT  
COMPANY**

**Claimant**

**- and -**

**(1) HOLLAND AND BARRETT  
INTERNATIONAL LIMITED  
(formerly known as NBTY EUROPE LIMITED)**

**Defendants**

**(2) HEALTH & DIET CENTRES LIMITED**

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**John Baldwin QC, Gerard Rothschild and Henry Ward** (instructed by **Carpmaels & Ransford LLP**) for the **Claimant**  
**Michael Bloch QC and Shane Sibbel** (instructed by **Eversheds Sutherland (International) LLP**) for the **Defendants**

Hearing dates: 12, 13, 14, 17, 18, 21, October 2016

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**Judgment Approved**

**Mr Justice Warren :**

**Introduction**

1. The central issue in this case is whether the claimant (“**GNIC**”) has validly terminated a trade mark licence agreement dated 6 March 2003 (“**the Licence Agreement**” or “**LA**”) which permits the Defendants (“**H&B**” and “**H&DC**”) to use certain “**GNC**” trade marks in the UK.
2. As will become clear, the identity of the licensor under the LA is matter of importance. The contracting party as licensor is (or rather was, since it has now been dissolved) a company bearing the same name as the Claimant. This

company (“**GNIC Arizona Oldco**”) was, and the new GNIC is, incorporated in Arizona.

3. GNIC is part of a group of companies which itself carries on business under the GNC brand in the United States and elsewhere across the world or licenses or franchises others to do so.
4. The LA was granted as part of a sale (through the mechanism of a share sale) by Royal Numico NV to H&B of that part of the GNC business being carried on in the UK. Following the sale, Numico’s GNC group withdrew from the UK market. GNIC claims to have become the successor to GNIC Arizona Oldco as licensor under the LA. GNIC accordingly claims to have the rights to terminate the LA which are conferred on the licensor under its terms.
5. GNIC alleges that H&B is in breach of the LA. It has served a number of notices purporting to terminate the LA pursuant to those rights of termination (together “**the Notices**”, as to which see paragraph 88 below). H&B contends that the acts complained of are either not breaches at all or, if they are, they are not material breaches warranting termination of the LA and have, in any case, been remedied. The issue is whether any of the Notices was effective to terminate the LA.
6. Some of the licensed GNC trade marks (“**the Unused Marks**”) have not been used by H&B for over 5 years. Under clause 5.6 of the LA (see paragraph 15 below), the licence in respect of them has been purportedly terminated. GNIC claims that it may now use these marks in the UK. H&B contends otherwise.
7. Before describing the issues in more detail, it is helpful to set out the relevant provisions of the LA.

### **The Licence Agreement**

8. The LA was made on 6 March 2003 between GNIC Arizona Oldco (whose principal office was stated to be at 1002 South 63<sup>rd</sup> Avenue at Buckeye, Phoenix, Arizona) (called “the Licensor”) and Holland & Barrett Europe Limited (called “the Licensee”). The Licensee is in fact the first Defendant, H&B, which has undergone name changes since the date of the LA.
9. Recitals A to D state:
  - A. The Licensor is the owner of the Trade Marks (defined later in the LA).
  - B. The Licensee has entered into an agreement of the same date with Nutricia International BV, a company in the same group as the Licensor for the sale and purchase of the entire share capital of the Health & Diet Group.
  - C. On completion, the Licensee will acquire Health & Diet Group Ltd being a part of the Health & Diet Group (also defined later in the LA) which “produces, manufactures, distributes, promotes, markets and

sells the Products under the Trade Marks and uses the Trade Marks as a retail brand in the Territory”.

D. The Licensor has agreed to grant to the Licensee the rights to use the Trade Marks and/or sublicense the use of the Trade Marks to the members of the Health & Diet Group in respect of “producing, manufacturing, distributing, promoting, marketing in so far as such rights are required for the purposes of retail sale, and selling the Products wholesale or through retail outlets or by means of the internet or by mail order only under the Trade Marks and using the Trade Marks as a retail brand in the Territory....”.

10. The LA contains the following definitions:

- i) “Domain” means [www.gnc.co.uk](http://www.gnc.co.uk).
- ii) “Health & Diet Group” has the meaning given to it in the share sale agreement which I have referred to.
- iii) “H&B Group” means the Licensee and all companies incorporated in the Territory which from time to time directly or indirectly are subsidiaries or subsidiary undertakings of the Licensee and any subsidiary holding company incorporated within the Territory. It is to be noted that this does not include a parent company of the Licensee.
- iv) “Products” means vitamins, minerals, nutritional supplements and any similar products. It does not matter who the manufacturer or distributor is. Thus, items in this list which do not bear the GNC mark are nonetheless within the definition.
- v) “Use or Used” means use of the Trade Marks in a variety of ways as set out in the lengthy definition. It includes retail sale (including by the internet and/or mail order) and, subject as provided later in the LA, wholesale sale of Products bearing the Trade Marks (referred to as the “Sale of Products”). It also includes the manufacture, distribution and marketing of Products and the use of packaging or marketing material bearing the Trade Mark in the production, manufacture, distribution and marketing of Products “all in relation to the Sale of Products and in each case by or on behalf of the Licensee or any Sub-licensees”. It also includes the use of the Trade Marks on retail shop fascias “where the business of such retail outlets is the promotion, marketing and sale of the Products”. Notwithstanding the above, such use shall not include any use over the internet unless such use is targeted at UK Purchasers and it is stated that orders cannot be accepted from outside the UK; nor shall it include wholesale sales outside the H&B Group.
- vi) “Unregistered Trade Marks” means any unregistered trade marks or service marks or get ups used by and owned by or licensed to the Licensor, the Health & Diet Group Limited and/or the GNC Group in relation to Products sold under the Trade Marks as of Completion.

- vii) “Sublicensees” means all companies within the H&B Group and all distributors of the Products and all subcontractors used by the H&B Group to manufacture or package the Product.
- viii) “the Territory” means the UK.
- ix) “the Trade Marks” means the GNC trade marks details of which are set out in Schedule 1. Schedule 1 specifies seven trade marks of which the ones which are material for present purposes are “GNC” and “GNC LIVE WELL”.

11. The LA contains the following substantive provisions of relevance:

- i) Under clause 2.1.a, the Licensor grants to the Licensee  
“the exclusive right to Use the Trade Marks during the term of this Agreement (as provided for under clause 5 below): (a) within the Territory....”
- ii) Under clause 2.2, the Licensee  
“shall be entitled to grant sub-licences of the rights granted under clause 2.1 above to the Sublicensees but shall have no other right to sub-license the rights granted hereunder without the prior written consent of the Licensor (not to be unreasonably withheld or delayed).

12. Clause 2.7, provides the following prohibition:

“The Licensee shall not, [*sic*] use the Trade Marks or seek customers or otherwise solicit orders outside the Territory.... for Products bearing or promoted using the Trade Marks but the Licensee shall be entitled to sell such Products within the European Union (as its membership may from time to time vary) in response to unsolicited orders for such Products.”

13. Clause 3 is headed “Manner of use” and provides as follows:

“3.1 The Licensee:

- (a) shall use the Trade Marks substantially in the form stipulated in Schedule 1 and shall observe all reasonable directions by the Licensor;
- (b) shall not use the Trade Marks in a manner that is derogatory or will cause a material dilution of the Licensor’s rights in the Trade Marks;

(c) [concerns confusion and is not relevant for present purposes];

(d) shall not incorporate any alpha, numeric or graphic additions to the Trade Marks; and

(e) subject to clause 2.2, shall not sublicense, assign or transfer this Agreement or any rights granted hereunder.

3.2 The Licensee acknowledges the Licensor's ownership of the Trade Marks and agrees that any goodwill accruing as a result of the Use of and attributable to the Trade Marks by the Licensee shall be for the benefit of the Licensor."

14. Clause 4 is headed "Trade mark protection and proceedings. Clause 4.4 provides:

"The Licensee shall not represent that it has any title in, or right of ownership to, any of the Trade Marks or do any act or thing which substantially impairs the rights of the Licensor in any of the Trade Marks, or brings into question the validity of their registration....., and shall ensure that any its agreements [*sic*] with any Sublicensee relating to use of the Trade Marks contain equivalent obligations."

15. Clause 5 is headed "Term and termination". The LA is to continue in full force and effect unless and until terminated in accordance with any of sub-clauses 5.2 to 5.6. Clauses 5.2 and 5.6 are material for present purposes and provide as follows:

"5.2 The Licensor may terminate this Agreement immediately by notice in writing if:

(a) The Licensee materially breaches this Agreement or any other member with the H&B Group commits an act which would amount to a material breach of this Agreement or (without prejudice to the Licensor's other rights to terminate under this Agreement) otherwise infringes the Licensor's rights under the Trade Marks to an extent likely to cause material lost to the Licensor; or

(b) The Licensee commits any other breach of this Agreement or any other member of the H&B Group commits an act which would amount to any other breach of this Agreement and, to the extent that the breach or such other act is capable or remedy, fails to remedy it within sixty days after being given a

written notice containing full particulars of the breach and requiring it to be remedied.

.....

5.6 If the Licensee ceases to Use the Trade Marks or any of them in respect of the Products for a continuous period of 5 years or more the Licensor shall be entitled to terminate this Licence in respect of such Trade Mark or Trade Marks.”

16. Clause 7 deals with the Domain (*ie* www.gnc.co.uk). Under clause 7.1, the Licensor assigns to the Licensee, and will procure the assignment by the GNC Group to the Licensee of

“all rights, title and interest in the Domain with full title guarantee together with all rights of action, remedies, powers and benefits relating to the Domain....”

17. The LA contains at clause 13 an “entire agreement” provision and provides at clause 15 that it is to be governed by and construed in accordance with English law, with the parties submitting to the exclusive jurisdiction of the courts of England.
18. A number of issues of construction arise out the LA in the context of the alleged breaches of its provisions. It is not possible to explain those issues without an understanding of the factual context in which the LA was made. I will come to the relevant facts in due course, as well as to the detail of the alleged breaches.

### **Right to serve the Notices and to bring proceedings; equitable defence**

19. There are three preliminary issues which I wish to identify at this stage before addressing the substantive issues concerning breach of the LA. Having done so, I will address the first and second of those preliminary issues; consideration of the third issue is to be postponed. These three preliminary issues go to the root of GNIC’s right to service the Notices, to bring these proceedings and to maintain these proceedings:
- i) The first issue is whether GNIC, which was not the Licensor under the LA, was entitled to serve the Notices and to bring and these proceedings.
  - ii) The second issue is whether the Notices are sufficiently clear and unambiguous validly to exercise the termination provisions of clause 5 of the LA.
  - iii) The third issue is whether these proceedings can continue to be maintained by GNIC. GNIC, as at best an equitable assignee of the Licensor’s rights under the LA, must, in the language of the old cases, come to the Court with clean hands. H&B’s case is that GNIC does

not do so and that this Court should refuse to give effect to GNIC's equity. The "clean hands" issue requires amendment to the pleadings. Mr Bloch has made an application to amend which is heavily contested. Following discussion at the hearing, this aspect of the case is being put aside until after I have given judgment on the other issues. If the application proceeds, further argument will be inevitable.

### **Entitlement to serve the Notices and bring proceedings**

20. As I have already explained, the Licensor under the LA was GNIC Arizona Oldco. As is further explained in a letter dated 25 March 2015 from Carpmaels & Ransford LLP (GNIC's solicitors) to Eversheds LLP (H&B's solicitors), that company was dissolved on 15 February 2007; GNIC (the Claimant) was incorporated in Arizona on 13 November 2003 at which time GNIC Arizona Oldco changed its name to GN Investment Oldco Company; and these changes were made in the context of a complex sale transaction relating to part of GNIC's or GNC Group's business, the detail of which does not matter. Thus far, the letter is accurate.
21. The letter goes on to explain that GNIC acquired title to the Trade Marks within the meaning of the LA by a trade mark assignment dated 5 December 2003 ("**the Assignment**"). It then goes on to explain further that "the Claimant thereby succeeded to GNIC Oldco in title to benefit of the Licence Agreement as Licensor of the Trade Marks". However, as I understand the Assignment, it does not cover all of the marks within the definition of Trade Marks in the LA (although it covers some marks within that definition and many marks not within that definition).
22. In any case, the pleaded case is rather different. Paragraph 3 of the Re-Amended Particulars of Claim relies on three agreements made on the preceding day, 4 December 2003, namely:
  - i) a Contribution, Assignment and Assumption Agreement ("**CAAA**");
  - ii) a Bill of Sale and Assignment ("**BSA**"); and
  - iii) an Assumption Agreement ("**AA**").
23. GNIC's case is that, as a result of those three agreements, the entirety of GNIC Arizona Oldco's business and assets were transferred to GNIC. Those assets included GNIC's trade marks including the Trade Marks as defined in the LA. And so, Mr Baldwin says, GNIC became the proprietor of those Trade Marks in December 2003.
24. Reliance is also placed on the wording of the Assignment which also included certain goodwill. I set out the operative part of the Assignment:

"... Assignor does hereby sell, assign, transfer, and set over unto Assignee the entire right, title and interest in, to an under the Trademarks, together with the goodwill of the business symbolized by the Trademarks and in

accordance with which the Trademarks are used, together with all common law rights of Assignor, including, without limitation, the right to bring action and recover for past infringement, if any, of the Trademarks.”

25. The Trade marks referred to were listed in Exhibit A attached to the assignment. They did not, if I have understood correctly, include all of the Trade Marks within the LA.
26. Mr Bloch has not suggested that GNIC Arizona Oldco was not able to assign its rights, whether at law or in equity, under the LA at all; and the question whether H&B is able to assign its rights, and in particular the benefit of the licence granted by the LA, has not arisen. Accordingly, I proceed on the basis that GNIC Arizona Oldco was in principle capable of making a legal assignment of its rights under the LA which would have conferred on the assignee the right to serve in its own name a notice of termination under clause 5 of the LA.
27. I do not propose to set out the provisions of the CAAA, the BSA or the AA. It is clear, in my view, that taken together they constituted an equitable assignment of all of GNIC Arizona Oldco’s assets (with certain exceptions of no relevance) to GNIC including (i) the Trade Marks licensed by the LA and (ii) all of GNIC Arizona Oldco’s rights under the LA. If there were any doubt about that, which I do not think there is, the Assignment dispels any such doubt so far as concerns the marks which it covers. Accordingly, as between those two companies, it would have been for GNIC, as equitable assignee, to determine whether, and if so when, to serve a notice under clause 5 of the LA and, in particular, to determine whether to serve the Notices.
28. There is one other trade mark assignment which I should mention. It is dated 31 March 2006. It is made between a company called General Nutrition Investment Company, stated to be a Delaware corporation and another company with the same name, stated to be an Arizona Business Corporation. Mr Baldwin says a question mark had arisen over the OHIM registry entries. He surmises (he may be correct and I have no other explanation) that this was because the original registrant, the Delaware corporation, remained on the register and the assignment was produced in relation to the licensed CTMs. By this time, however, the Delaware corporation had, as I accept, ceased to exist, having been merged into GNIC Arizona Oldco. In the meantime, GNIC Arizona Oldco had transferred its assets to GNIC. Mr Baldwin submits, therefore, that the assignment is to be read as being made between GNIC Arizona Oldco (as assignor) and GNIC (as assignee). That may or may not be correct. It is not necessary to decide since the present case is concerned not so much with the assignment of the marks but with the assignment of rights under the LA.
29. No notice of any assignment of the Trade Marks subject to the LA (or any of them) or of the benefit of the LA was given to H&B by anyone prior to the commencement of these proceedings (although H&B had apparently been informed of the proposed December 2003 restructuring in November 2003).



GNIC's position, nonetheless, is that it took the place of GNIC Arizona Oldco as Licensor and became the person entitled to serve notices of termination under the LA. The Notices were, it says, therefore valid as notices.

30. H&B takes a different view. Mr Bloch has three arguments:
- i) First, that as a matter of equitable principles, GNIC as equitable assignee of the benefit of the LA could not invoke clauses 5.2(a), 5.2(b) and 5.6 against H&B in advance of providing H&B with notice of the alleged assignments;
  - ii) Secondly, that as a matter of construction of the LA, GNIC is not entitled to invoke those clauses against H&B in advance of providing such notice; and
  - iii) Thirdly, that in the absence of such notice, the Notices are in any event insufficiently clear and unambiguous to satisfy the test for such notices set out in *Mannai Investment v Eagle Star Life Assurance Co Ltd* [1997] AC 749.
31. I consider that the first and second arguments are closely interlinked since, ultimately, the question is whether an assignee of GNIC's rights under this contract (*ie* the LA) is able to exercise the termination rights conferred on "the Licensor". I propose to take these arguments together. Essentially, the question is whether GNIC is able to exercise the rights of "the Licensor" at a time when it is only an equitable assignee of the benefit of the LA and at a time when H&B has no notice of the assignment.
32. Mr Bloch's first point is that in the absence of any notice to H&B of the assignments relied on by GNIC there can have been no legal assignment of the benefit of the LA. Mr Bloch relies on section 136 Law of Property Act 1925 which provides that a debt or other legal chose in action can only be assigned in law where (amongst other things):
- i) the assignment is absolute; and
  - ii) express notice, in writing, has been given to the debtor, trustee or other person from whom the assignor can claim the debt, or from whom the other *chose in action* is enjoyed. In the context of the LA, this includes the right to serve a notice of termination under clause 5.
33. Mr Bloch is clearly correct in this submission and it is not now (and may never have been) disputed by GNIC. It is recognised in paragraph 16 of the Re-Amended Particulars of Claim where it is said that GNIC
- “(as an assignee in equity under English law) stands in the shoes of GNIC Arizona Oldco so as to be entitled to the benefits enjoyed by the Licensor under the Agreement”.

34. Mr Bloch goes on to submit that, as an equitable assignee, GNIC had no power to serve a notice under clause 5 of the LA. It is well established, he says, that an equitable assignee of a legal *chose in action* takes incomplete title to that *chose* in advance of provision of notice to the debtor; and in advance of such notice, title is ineffective against the debtor. He relies on the decision of the Court of Appeal in *Warner Bros Records Inc v Rollgreen Ltd* [1976] 1 QB 430, (“**Warner Bros**”) where the Court was concerned with the purported exercise, by an equitable assignee of the rights under a recording agreement, of an option to extend the life of that agreement. No notice of the assignment had been provided to the counterparty to the agreement, who had granted the relevant option. The Court of Appeal held that, in the absence of such notice, an equitable assignee of a contractual option had no entitlement to exercise that option in his own name so as to bind the grantor.
35. I will be looking at *Warner Bros* in due course. But before I do that, I make some observations about the right of an equitable assignee to bring proceedings in his own name against the obligor under a contract, often a debtor owing a sum of money to which the claimant is, in equity, entitled. I will refer to such person as the “debtor” although in the present case, H&B was not a debtor in the ordinary sense. There is no doubt that, as between assignor and assignee (and persons claiming through them), the assignment is effective and fully enforceable without notice to the obligor. There is no doubt either that, for procedural purposes, an equitable assignee can enforce his claim against the debtor if he joins the assignor as a party to the action (either as a claimant with the assignor’s consent, or as a defendant if he does not consent). In that way, the assignor as well as the assignee is bound by any decision of the court (for instance as to the validity or enforceability of the relevant obligation). It is also, in modern times, established that it is not a universal requirement that the assignor be joined in proceedings in order for the assignee to be able to enforce the claim against the debtor: see *Kapoor v National Westminster Bank plc* [2011] EWCA Civ 1083 at [30] (Etherton LJ). None of this matters: in the present case, H&B has agreed to waive the requirement to join GNIC Arizona Oldco to the proceedings so this aspect of the case, at least, is not an area of dispute.
36. It does not follow from the usual requirement to join the assignor as a party to proceedings that there is no cause of action vested in the assignee of a debt. That there is a cause of action is demonstrated by the judgments of Oliver LJ and Ackner LJ in *The Aiolos* [1983] 2 Lloyd’s Rep: see the passages cited and referred to by Etherton LJ in *Kapoor* at [31]. No issue relating to notice (or absence of notice) of the assignment was, in any case, raised in those cases.
37. It does not follow from the fact that the procedural requirement just discussed can be waived by the court nor from the existence of a cause of action vested in the equitable assignee of a debt that GNIC’s argument in relation to the service of a termination notice under the LA is correct. The service of a termination notice affects the legal relationship between the parties: it is a matter of substance. It is open to a court of equity to lay down the rules applicable to the identification and enforcement of equitable rights; but it is not immediately apparent that it is open to the court to vary the contractual

rights of the parties in a situation such as the present. At this point I return to *Warner Bros.*

38. Mr Bloch relies on the passage from the judgment of Lord Denning MR at p 442:

“It is a settled principle of equity that in order to perfect the title of an assignee of a debt notice to the debtor is necessary: see *Stocks v Dobson* (1853) 4 De G.M. & G 11, 15, 16 per Turner LJ, and in *Halsbury’s Laws of England*, 4<sup>th</sup> Ed, vol 6 (1974), para 42, p. 27, it is said:

‘In order to make the assignee’s title effective against the debtor or fundholder and third parties notice of the assignment must be given to the debtor or fundholder....’

It seems to me that that principle applies not only to a debt but also to an option. I look at it in this way: the option was a binding offer made by one part to a contract to the other. If there were no clause permitting assignment, the only person who could accept that offer would be the other party to the contract, that is, the grantee of the option, and he would have to accept it in accordance with its terms. But in this case there is a clause permitting the grantee of the option to assign it to another. If the assignee then wishes to exercise the option it is, I think, essential that notice of the assignment should first be given to the grantor. The grantor cannot be expected to act on a letter purporting to exercise the option which comes out of the blue from some-one or other of which he knows nothing. He must be told that it comes from an assignee who has taken an assignment. Notice is therefore necessary to perfect the right of the assignee to exercise the option.”

39. Lord Denning’s conclusion at p 443 was that “an equitable assignee of a contractual option who has not given notice is not entitled to exercise the option.”

40. Mr Bloch also refers to the judgment of Roskill LJ. After agreeing with the conclusion reached by Lord Denning, he added at p 443H:

“It is said that that [*ie* exercise by the assignee] is a valid exercise of the option. My answer is that it is not such a valid exercise. My reason for that answer is that the only rights that an equitable assignment can create in the equitable assignee are rights against his assignor who thenceforth becomes trustee of the benefit of the option for the assignee, and the assignor could, of

course, be compelled in equity to exercise those rights for the benefit of the assignee.”

41. Roskill LJ’s approach, it can be seen, was that, in order to enforce the contractual right against the grantor himself, the equitable assignee had to give notice under section 136 LPA 1925 and become a legal assignee. The principle applied to all legal choses in action, and all contractual rights: see at p 444B-D and the discussion of *Friary Holroyd and Healey’s Breweries Ltd v Singleton* [1899] 1 Ch 86. It is to be noted that Roskill LJ expressly agreed with the judgment, not simply the conclusion, of Lord Denning: see p 444G.

42. Sir John Pennycuik also agreed with the result reached by the other two judges. At p 445A-C he explained:

“..... it seems to me that the fatal obstacle in the way of Mr Drake’s [he appeared for the assignee] contention is that when [the assignee] purported to exercise the option by the letter of August 7, 1973, there was no contractual relation in existence between [the assignee] and Stewart [who had granted the option]. Where there is a contract between A and B, and A makes an equitable but not a legal assignment of the benefit of that contract to C, this equitable assignment does not put C into a contractual relation with B, and consequently, C is not in a position to exercise directly against B any right conferred by the contract on A. The equitable assignment may be converted into a legal assignment by notice to B: see section 136 of the Law of Property Act 1925; but, so long as the assignment remains equitable only, C has no more than a right in equity to require A to protect the interest which A has assigned and to do so by exercising the option himself.”

43. Mr Bloch submits that the principles set out in *Warner Bros* apply equally to the present facts. The reasoning of the Court is addressed not just to the contract in question but to all situations in which an equitable assignee of a legal *chose in action*, in advance of the provision of notice, purports to exercise a contractual right against the grantor of that right.

44. Mr Baldwin and Mr Rothschild have produced a lengthy riposte to this in their closing written submissions (with Mr Rothschild taking on the burden of oral submissions on this topic) to which I come in a moment. To avoid repetition, I will refer only to Mr Baldwin in identifying relevant submissions, but many of them came from Mr Rothschild. Before I come to those submissions, I should mention, in order to reject, one argument raised in GNIC’s reply where it is stated, at paragraph 4, that H&B’s argument cannot be correct because the effect of it “is that it is not possible to terminate the [LA] at all, which cannot be correct”. On the contrary, in my view it is GNIC’s suggestion which is incorrect:

- i) Once notice of the assignment has been given to H&B, GNIC is able to invoke the termination clauses in the LA against H&B. I agree with Mr Bloch that the provision of such notice is not, and would not have been, an onerous or difficult step for either GNIC Arizona Oldco or GNIC to have taken or now for GNIC to take.
  - ii) Even in the absence of such notice, it was at all times open to GNIC Arizona Oldco (subject only to its voluntary administrative dissolution and the relevant applicable laws), to invoke the terms of the LA against H&B (either on its own behalf or as trustee for GNIC).
45. I should also mention at this stage – and I do not overlook it when assessing the case overall – the appeal to the merits. From GNIC’s perspective, the issue has only arisen because a purely internal reorganisation took place. One company called GNIC with a particular address in Arizona became another company called GNIC with the same address. All GNIC Arizona Oldco’s assets were transferred to GNIC. It is not suggested, nor could it be, that had notice been given of the assignment, anyone would have acted in any different way. There is some attraction in the merits which flow from that. But it will no doubt often be the case – and would have been the case in *Warner Bros* – that nobody would, or could, have acted differently if notice had been given. The point may be technical, but that does not mean that it is a bad point. Indeed, there are countervailing arguments. For instance, it is only happenstance that the two companies had the same name. Had the new company been called something completely different, what, I ask rhetorically, was H&B supposed to do with a notice purporting to terminate the LA coming from an entity of which it had never heard?
46. Rather more tendentiously, Mr Baldwin accuses H&B of attempting to take the benefit to it as licensee under the LA (which, so far as it licenses trade marks, is binding on GNIC under section 28 Trade Marks Act 1994 (“TMA”)) whilst refusing to recognise that the benefit (in particular the right to enforce its provisions) under the LA to the Licensor has passed to GNIC. It is suggested that this is a paradigm example of a case in which a formal requirement, which impacts on the parties not at all, would serve to confer an unmerited benefit on one of them, leading to injustice, which is the *raison d’être* of equitable relief.
47. Turning now to GNIC’s case on the legal issue, the essential point is that notice of assignment is a requirement only of a statutory assignment under section 136 Law of Property Act 1926. The present case is not one of statutory assignment but of equitable assignment. The predecessor of section 136 (section 25(6) Judicature Act 1893) was enacted because the common law courts did not generally recognise equitable assignments. In contrast, courts of equity did so (or rather, as I would put it, the creature known as an equitable assignment can be identified precisely because a court of equity recognises it). Mr Baldwin submits that the existence of the statutory procedure did not oust or alter the pre-existing rules established by the courts of equity. He bases that submission on a passage from the judgment of Lord Macnaghten in *Brandt’s Sons & Co v Dunlop Rubber Co* [1905] AC 454 at 462:

“The statute does not forbid or destroy equitable assignments or impair their efficacy in the slightest degree.”

48. That is no doubt true. But it does not provide an answer to the issue in the present case, which is what the effect of an equitable assignment is in the first place.
49. As to that, Mr Baldwin makes the general submission that notice of assignment is not required in equity: it would be inconsistent with the maxims of equity. He asserts that to allow a debtor (or, in the present case, H&B as potential recipient of a notice) to flout the assigned contract and deny the assignee the right to a remedy on the formalistic basis of absence of knowledge of the assignment on the part of the debt “would plainly be unjust”.
50. He asserts also that equity allows the assignee to sue on the assigned contract subject only to a procedural requirement that the assignor be joined. He refers to *Kapoor*, which I have already mentioned at paragraph 35 above. He is correct to say that this procedural requirement is not absolute and that it has, in any case, been waived by H&B in the present case. However, as to substance, the fact that the assignee of a debt has a cause of action to recover the debt does not of itself lead to the conclusion that the assignment of the benefit of the LA to GNIC entitles it to exercise the right, under the LA, for the Licensor to serve a termination notice in the absence of notice of the assignment to H&B.
51. Let me illustrate this point. Suppose that GNIC Arizona Oldco had not been dissolved and had been joined as a co-claimant in the proceedings. The two claimants, in seeking the declaratory and other relief which is sought, would still need to establish that the Notices were properly served. They were served by GNIC, not by GNIC Arizona Oldco. If, in the absence of a legal assignment, notice is required to be given by the latter but has not been so given, it is nothing to the point that it is subsequently joined in proceedings. The validity of the Notices cannot depend on who is subsequently joined in the proceedings. In contrast, if the Notices were validly served by GNIC, the absence of GNIC Arizona Oldco as party is unimportant in the light of H&B’s agreement to waive the procedural point, quite apart from *Kapoor*.
52. The next point taken by Mr Baldwin is closely linked to the benefit-and-burden point just addressed. In essence, his point is that benefit and burden is particularly acute in the context of a trademark licence where, as in the present case, trade marks are transferred with the benefit of a relevant licence agreement. As he points out, usually the assignment of an assignable contract will carry the benefit but not the burden, absent some sort of novation. But this is not so in the case of a trade mark. Under section 28(3) TMA, the transferee of a registered trade mark is statutorily bound by any relevant licence agreement:

“Unless the licence provides otherwise, it is binding on a successor in title to the grantor’s estate.”

53. The LA does not provide otherwise. Accordingly, the licence is binding on the successor in title. And so, according to Mr Baldwin, it would be even more unconscionable for the trade mark licensee to deny the right of the assignee to enforce the licence agreement without notice of the assignment. Otherwise there would be an obvious inequality: the assignee would be bound by the licence agreement but be able to do nothing himself to police it.
54. I do not understand this argument. There is more than one objection to it. These are some:
- i) First, it is not a licence agreement which is made binding by section 28(3), it is the licence granted under any such agreement. The benefit of and burden of the terms under which the licence is granted are, I consider, to be governed by ordinary contractual principles. The assignee of the benefit a trade mark licence agreement is in no better a position to enforce the terms of the agreement than the assignee of the benefit of any other contract.
  - ii) Secondly, the assignee would be able to police the licence agreement. All the assignee would need to do would be to give notice of the assignment to the licensee to give full effect to the assignment to him.
  - iii) Thirdly, a trade mark owner might transfer some, but not all, of the marks subject to a trade mark licence to another person. Unless the licence is somehow severable, how the terms of the licence are to be enforced is just the sort of matter which has to be dealt with by the agreement between transferor and transferee and is not the direct concern of the licensee.
  - iv) Fourthly, the need for notice is demonstrated when regard is had to the position of a licence which provides, in contrast with the LA, for a periodic licence fee. Until the licensee is given notice of the assignment, he will not know that he ought to be making his payment not to the party with whom he contracted, but with some third party. It is not simply a procedural requirement that notice be given: rather, until it is given, the debtor's only contractual obligation is to the assignor.
55. A more fundamental attack on Mr Bloch's submissions is focused on *Warner Bros*. This decision is said by Mr Baldwin to be distinguishable and is to be distinguished. Further, it is said that *Warner Bros* is wrong, having been subject to both judicial and academic criticism. There is certainly a difference between *Warner Bros* and the present case. *Warner Bros* concerned an option on the part of the recording company to extend the period during which Mr Stewart was to record for that company. In contrast, the present case concerns not an extension of a contract in relation to which the identity of the contracting parties is obviously important, but the termination of a contract where the identity of the person terminating the contract is of less significance. Whether that difference is sufficient to distinguish *Warner Bros* is a matter to which I will come. Before I do that, I propose to look at some other authorities relied on by Mr Baldwin and at some academic commentary.

56. The first authority is the decision of Gloster J in *Pearson Education v. Prentice Hall* [2005] EWHC 655 (QB). In that case the Judge was concerned with the equivalent factual position in a copyright case, where the relevant statutory provisions are in sections 90(4) and 92(2) of the Copyright Designs and Patents Act 1988 (equivalent to section 28(3) and section 29(2) TMA). Section 90(4) provides that a licence granted by a copyright owner is binding on every successor in title save a purchaser for value in good faith without notice; and section 92(2) provides that a licensee under an exclusive licence has the same rights against a successor in title as against the grantor. The claimant equitable assignee of a copyright licence was claiming entitlement to serve default notices on a licensee. The question before the Judge was whether the case was sufficiently arguable for the purposes of permission to serve the claim out of the jurisdiction.
57. In the light of the decision of the Court of Appeal (in particular the judgment of Peter Gibson LJ) in *Three Rivers DC v. Bank of England* [1996] QB 292 (“*Three Rivers*”) to which I will come, she considered that it was “seriously arguable” that the claimant, even if it had not given written notice of the assignments at the time of its service of default notices, was in a contractual relationship with the defendant, such as to entitle it, in its capacity as legal proprietor of the copyrights, to serve such notices. She appears to have been particularly influenced by an imbalance which she perceived between the position of the assignee/new licensor on the one hand and the licensee on the other; thus, for example, the latter, as exclusive licensee, would be entitled to exercise its rights under the Agreements against the latter under section 92(2) of the 1988 Act, irrespective of the formality of written notice, but the assignee/new licensor would not, unless it had given prior written notice of the assignment of the licence agreements under section 136 of the Law of Property Act.
58. I do not disagree that the point was seriously arguable and it has been seriously argued before me. I do not gain any assistance from what Gloster J actually said other than her recognition that the decision in *Three Rivers* gave the claimant a seriously arguable point and that *Warner Bros* was distinguishable. As to the merits of that argument, it is necessary to go back to *Three Rivers* itself. Before I do that, however, I refer to the other cases on which Mr Baldwin relies. These are both Canadian cases: *Re Hart Brothers Construction* (1954) 12 WWR (NS) 711 (“*Hart Brothers*”), a decision of Alberta Queen’s Bench (Bensler J), and *Telus Services Inc. v Tele-Direct (Publications) Inc.* [2001] ABQB 777 (“*Telus*”) a decision of the British Columbia Supreme Court (Wilson J).
59. In *Telus*, the same situation arose as in the present case: an assignee sought to terminate a trade mark licence without giving notice of the assignment to the licensee. The Judge granted summary judgment in favour of the assignee (and dismissed an application by the licensee for summary judgment to the opposite effect). The argument of the licensee, as recorded by the Judge at [27] of her judgment, was that even if there is a valid equitable assignment, the assignee may only enforce, but not exercise, the contractual rights assigned to it. The enforcement/exercise dichotomy was said to stem from the decision in *Warner*



*Bros*. In other words, as the Judge put it, although there only needs to be an equitable assignment in order to enforce a contractual right, there must, in order to exercise a contractual right, be a legal assignment demonstrated by express notice of the assignment to the obligor.

60. The Judge went on to say, in [29] that “one may clearly distinguish *Warner Bros*, as dealing with options to renew, rather than termination. On this basis, the case need not be followed”. This is a most unsatisfactory approach. Of course, the facts in *Warner Bros* were different. But that was not a sufficient ground for distinguishing *Warner Bros* if the reasoning in that case was equally applicable to the facts in *Telus*. As a Canadian judge, however, Bensler J would not have been bound by *Warner Bros* and, indeed, she considered herself bound by an earlier Canadian authority to find in favour of the assignee.
61. She went on to decide that the enforcement/exercise dichotomy must fail. She referred to the judgment of Roskill LJ in *Warner Bros* where he had concluded that “Phonogram, in view of their failure to give the required notice, never became the legal assignees of the benefit of this option and are unable to enforce it in their own name...” (emphasis added by Bensler J). I do not consider that what Roskill LJ said there supports the Judge’s approach. He was not talking about enforcement by way of action in the courts (when the question is the procedural one of whether it is necessary to join the assignor). Rather, he was using the word “enforce” in the sense of relying on, or implementing, the contractual right to exercise the option; he was, in my view, addressing himself precisely to a substantive and not a procedural question.
62. Bensler J then relied on the criticism levelled against *Warner Bros* in *Three Rivers* and in particular the description of Roskill LJ’s reasoning as being “not a complete or accurate analysis of the effect of an equitable assignment”. I will be addressing these criticisms later, as well as the criticisms appearing in *Chitty on Contracts* (the edition before the Judge being the 28<sup>th</sup> edition). Either the criticisms are justified or they are not: the Judge gives no reasoning one way or the other which lends support to those criticisms.
63. Bensler J then stated that the Canadian authorities are “extremely clear on this issue”. She refers to only one of those authorities, namely *Hart Brothers*. This she describes as authority for the proposition that there is no need to notify the obligor in order to perfect the substantive rights of the assignee, as the Judge puts it at [24]. She disagrees with Lord Denning’s reasoning in *Warner Bros* where it is stated that “notice is therefore necessary to perfect the right of the assignee to exercise the option”.
64. In *Hart Brothers*, a bank claimed to be entitled to certain funds in court representing funds owing by a school board to a construction company and paid into court by the board. Upon the adjudication in bankruptcy of the company, the bank claimed the sums in court. Its right to claim arose under a written assignment, made prior to the bankruptcy, to it by the company of book debts, including the debt owing by the school board. Notice of this assignment had not been given to the board prior to the adjudication in bankruptcy of the company. The other claimants to the fund were (a) the

trustee in bankruptcy and (b) subcontractors who supplied labour and materials in respect of work done by the company (referred to as “the materialmen”). The trustee only asked that the money in court be paid to him for distribution as the directed by the court.

65. The materialmen attacked the assignment to the bank on three grounds. Only the first ground is relevant for present purposes. It was that the assignment failed because notice was not given to the debtor, the board. Wilson J dealt with this argument in paragraph 12 of his judgment. Referring to the Canadian equivalent of section 136 Law of Property Act 1925, he noted (relying on *Brandt's Sons & Co v Dunlop Rubber Co*) that this provision “does not impair the efficacy of equitable assignments valid prior to the Act” so that “an equitable assignment becomes effective when communicated to the assignee” and “is absolute and complete without notice to the debtor and notice to the debtor is not necessary to make it valid as against third parties who stand in the same position as the assignor, that is general and judgment creditors...”. But the assignee takes subject to all equities so that the assignment was good against the materialmen unless they had an equity under the particular Canadian Act (which they did not). The Judge then concluded: “The fact that the bank may not, as an equitable assignee, sue for this debt without joining the name of Hart Bros does not, I think, help the materialmen, because all parties, including the trustee in bankruptcy, the successor in title of Hart Bros, are before the Court...”.
66. *Hart Brothers* is, to my mind, an entirely conventional and unsurprising decision so far as this aspect of the case is concerned. But it does not appear to me to have anything to say, one way or the other, about the type of situation which arose in *Warner Bros* where the essential question was who had the power to serve a notice to exercise a contractual right, in that case an option, so as to affect the contractual rights as between the assignor or the assignee, on the one hand, and the contractual counterparty on the other hand. Indeed, if it says anything about that type of situation, it is in favour of the *Warner Bros* approach since the judge refers to the assignment being valid as against third parties claiming through the assignor and does not refer to its being valid against other third parties such as contractual counterparties. The very question is whether the substantive right to serve the notice so as to bind the counterparty has passed to the assignor or not. *Hart Brothers* does not appear to me to answer that question so I do not understand why Bensler J in *Telus* regards it as authority to the contrary (see [24] and [32] of her judgment).
67. It is true, I acknowledge, that an equitable assignment of a debt or other assignable obligation is complete and absolute as between assignor and assignee without notice to the debtor or obligor, but absent notice to the debtor or obligor, the assignee is in a vulnerable position. Thus a debtor, whose debt has been assigned to an assignee, will obtain a good discharge if, without notice of the assignment, he pays the assignor: see the old case of *Stocks v Dobson* (1853) 4 De GM&G 11 cited by Lord Denning, where a debtor obtained a good discharge when he paid to an assignee of the debt which he owed and of which he had notice notwithstanding that the assignee had himself mortgaged the debt to a third party of which mortgage the debtor had

no notice. In that sense, at least, an assignment of a debt is not complete and absolute without notice to the debtor.

68. Mr Baldwin also relies on the decision in *Three Rivers*. I shall deal with his submissions about that case when considering his riposte to Mr Bloch's case based on *Warner Bros*.
69. So much for those authorities. Mr Baldwin has also referred to other texts. He notes what is said in *Chitty on Contracts* (32<sup>nd</sup> ed). In the body of the text at 19.005, reference is made to *Warner Bros*, the reasoning being based "on the fact that the assignment was equitable only". However, footnote 26 suggests that the authority of the case is somewhat distorted by the formulation of the question to which the Court of Appeal gave an answer and suggests also that some of the dicta went further than was necessary for the decision with the case being regarded simply as authority upon the equitable assignment of options. *Chitty* accepts that the case remains authority in that limited context whereas Bensler J would not, it seems to me, have accepted even that to be the case in Canadian law. I do not understand why the authority is distorted as *Chitty* suggests, although it may be that the Court did not need to say some of the things which it did in order to reach a decision. That does not mean that what it did say was not actually part of its reasoning.
70. Mr Baldwin has also referred me to an article by Diana Kloss: "Notice of the Equitable Assignment of a Chose in Action" (1975) 39 Conv 261, one of the academic criticisms indirectly referred to by Gloster J in *Pearson v Prentice Hall*. Mr Baldwin relies on this article as demonstrating what he refers to as the flawed precedential basis of Lord Denning's judgment in *Warner Bros*. This is a reference to the criticism of Lord Denning's reasoning based on the decision in *Stocks v Dobson* which the learned author suggests rests on the mistaken view that *Dearle v Hall* was not only concerned with priorities but also with what is necessary to complete an assignment.
71. It seems to me, however, that *Stocks v Dobson* is a perfectly correct decision insofar as it held that the debtor had obtained a good discharge and that the mortgagee of the debt had no claim against him having failed to give notice before he settled the debt with the original assignee. In the absence of notice of an assignment, a debtor will have no reason to think that he will not get a good discharge if he pays the assignor; he will have a good defence to a claim by the assignee even if the assignee has, since payment of the debt to the assignor, given notice to the debtor of the assignment. Notice is therefore a matter of substance of which a Court of Equity should take note. It would, I think, be entirely unjust if a debtor was not discharged when he pays his creditor not having been told that the creditor had already assigned the debt to an assignee. Even if the assignee has a cause of action, that cause of action comes to an end when the debt is discharged.
72. Of course, at any time before the debt has in fact been paid, the assignee is entitled to recover it. The assignee might seek to recover the debt without litigation, but that will almost inevitably mean that the debtor is given notice of the assignment; or he can seek to recover it by bringing proceedings in which case he will have to prove his title to the debt and the assignment will

inevitably be revealed. The question of notice will in practice cease to be a real issue.

73. It also seems to me that Lord Denning was placing reliance on *Stocks v Dobson* for the need for notice to be given to the debtor in order for the assignee to be able to rely on his assignment to recover from the debtor. It is only notice which makes the assignment effective (otherwise the debtor could obtain a discharge by paying the assignor). It is only notice which perfects the title of the assignee. The law has moved on since the broad statement in *Stocks v Dobson* to the effect that notice is necessary to “perfect the title of the assignee of a debt” in that it is clear that an assignee does have a cause of action. But, as I have pointed out, *Stocks v Dobson* remains good law to the extent that it establishes that a debtor will obtain a good discharge from the assignor in the absence of notice of the assignment and that is enough for sense to be made of the passage in Lord Denning’s judgment which Ms Kloss and Mr Baldwin criticise.
74. Roskill LJ and Pennycuick approached the matter differently from Lord Denning (although as I have already mentioned, Roskill LJ did actually approve Lord Denning’s judgment). Even Ms Kloss found their reasoning convincing albeit that she detected an “old-fashioned ring” about it. They reasoned that so long as an assignment remains equitable only, the assignee has no more than a right in equity to require the assignor to protect his interest by exercising the option in the assignor’s name. If the assignor omits to do so and the option runs out, it is useless for the assignee to pursue any remedy against the grantor of the option, his only redress being against the assignor. In contrast, if notice is given of the assignment so that it become a legal assignment, the assignee can give notice in his own name. Because notice had not been given, the option could only be exercised through the assignor as the legal option holder.
75. Ms Kloss’ argument, which finds resonance in Mr Baldwin’s submissions, then runs as follows. She notes that the equitable assignee of a debt can sue in his own name, joining the assignor as a party (a course which, it is now established, is not always necessary as already discussed; see paragraph 35 above) and suggests that equity could, indeed should, hold that an equitable assignee may exercise the option in his own name and when the time comes to enforce the resulting contract, join the assignor to the proceedings. That leaves the question of notice as to which Lord Denning in *Warner Bros* considered that notice would still be necessary because it would not be fair on the grantor to expect him “to act on a letter purporting to exercise the option which comes out of the blue from someone or other of which he knows nothing. He must be told that it comes from an assignee who has taken as assignment” (see Lord Denning at p 442 G-H). Why not?, Ms Kloss asks. Lord Denning clearly thought the answer was obvious. Whether obvious or not, it formed part of Lord Denning’s reasoning. There is, in any case, a great deal to be said for the view that notice to the grantor of the option is necessary as a matter of fairness. In the absence of notice, it is not only the case that the grantor would not know that the assignee was entitled to exercise the option, but it is also the case that he would not know that the assignor was not entitled

to exercise it. It cannot, in my view, be right that both the assignor and the assignee should be entitled to do so. This contrasts with the position where concurrent causes of action may subsist in the case of the equitable assignment of a debt, with the equitable assignee having a cause of action in equity and the assignor retaining a cause of action at law: see Staughton LJ in *Three Rivers* at p303 G-H.

76. I now come to the decision in *Three Rivers* on which Mr Baldwin relies. It is fair to say that this decision levels criticism at the decision in *Warner Bros* and the reasoning in the judgments. As a matter of decision, *Three Rivers* is authority for the proposition that it is not necessary, as a requirement of substantive law, for an equitable assignee to join the assignor in a claim against the debtor. Joinder is merely a procedural requirement that can be dispensed with in certain special circumstances (as has occurred by consent in the present proceedings). It is not, in my view, authority for a wider proposition to the effect that an equitable assignee is always entitled to exercise the substantive rights conferred contractually on the assignor. It certainly did not overrule the decision in *Warner Bros*. Staughton LJ referred to the criticisms of the decision in *Chitty* (26<sup>th</sup> ed) and in *Treitel, The Law of Contract* (8<sup>th</sup> ed) (there is perhaps some double counting here since Professor Treitel was not only the writer of the latter but an editor of the former) and to the enthusiastic support for the decision in *Meagher, Gummow and Lehane on Equity: Doctrines and Remedies* (3rd ed). Staughton LJ suggested that the observations of Roskill LJ and Sir John Pennycuick may be said to place undue emphasis on the maxim that equity acts *in personam*, whilst supporting the proposition that the equitable assignor retains a cause of action which he can enforce.
77. Both Staughton LJ and Peter Gibson LJ saw the essential factor for Lord Denning as being the absence of notice; the debtor could not be expected to act on a letter out of the blue. Neither of them, nor the third judge, Waite LJ, made any observations on this factor since notice was not an issue in *Three Rivers* itself. Peter Gibson LJ was, however, critical of the reasoning of Roskill LJ and of Sir John Pennycuick, referring to the academic and text book criticisms to which I have already referred. In particular, he correctly observed that the line of authorities showing that an equitable assignee has a cause of action were not taken account of (if, indeed, they had been cited in *Warner Bros*). However, the following points must be emphasised:
- i) The court did not overrule *Warner Bros* or hold that it was wrongly decided. Rather, the case was side-lined by Peter Gibson LJ who placed emphasis upon the analysis of Lord Denning which, as mentioned, focused on the issue of notice and the ability, or inability, of an equitable assignee to invoke a contractual right in advance of notice of the assignment;
  - ii) On the facts of *Three Rivers*, no issue about notice arose. Notice did not result in the equitable assignee becoming an assignee at law under section 136 LPA 1925, because the debts in question had only been partially assigned, rather than absolutely assigned.

78. *Warner Bros* has not been overruled or materially distinguished in subsequent cases. Further, in spite of judicial and academic questioning, *Warner Bros* continues to be referred to as authority in the texts. The following are examples:

i) Halsbury's Laws of England, Vol 13 (2009) "Assignment of Choses in Action" at para 41:

"In order to make the assignee's title effective against the debtor or fundholder and third parties notice of the assignment must be given to the debtor or fundholder, though no assent or acquiescence on the part of the debtor or fundholder is necessary. Thus an equitable assignee of a contractual option who has not given notice is not entitled to exercise the option in his own name."

ii) Chitty on Contracts, 32<sup>nd</sup> Edition, at 19-005:

"A statutory assignee can sue the debtor without joining the assignor as a party to the action, whereas an equitable assignee often cannot do this. Furthermore, it must be observed that whereas a statutory assignment passes a legal right to the assignee, an equitable assignment passes only an equitable right. In practice, as already observed, this usually makes little difference as a matter of substantive law to the efficacy of the assignment; but there are some situations where the distinction can prove of practical importance. For example, it has been held that an assignee of an option to renew a contract for services who had not given notice of his assignment to the other contracting party could not exercise the option: the reasoning is based on the fact that the assignment was equitable only."

iii) Snell's Equity, 33<sup>rd</sup> Edition, at 3-021 to 3-023:

3-021. The effect of an equitable assignment depends upon whether or not the whole interest in the chose has been vested in the assignee.

3-022. (a) Whole interest assigned. When the chose is merely equitable and the whole interest in it has been vested in the assignee, equity has always permitted him to sue in his own name without joining the original creditor....

3-023. (b) Some interest outstanding. The rule is otherwise if the assignment leaves some interest outstanding. This occurs where there is an equitable assignment of part of the chose, or an equitable assignment of a legal chose; for in the latter case, even if the whole chose is assigned, the original creditor still owns the chose in law, holding it in trust for the assignee....

Further, an equitable assignee of a legal chose in action cannot exercise contractual rights such as an option conferred on the original creditor. Nor can he give an effective discharge to the debtor unless authorised to do so by the Assignor.”

79. *Warner Bros* is, of course, binding on me as a matter of decision. Further, I find certain of the reasoning, even if not strictly binding on me, compelling, in particular, the need for notice, essentially as a matter of fairness, relied on by both Lord Denning and by Roskill LJ (in the case of the latter, by way of his agreement with Lord Denning’s judgment). The grantor of the option was clearly entitled to know with whom he would be contracting in the event of the exercise of the option and to whom he would owe contractual duties. These are certainly not mere matters of procedure. They go to the substantive contractual rights between the parties going beyond the simple transfer involved in the assignment of a debt.
80. In my judgment, there is a close analogy between the exercise of the option in *Warner Bros* and the exercise of the power of termination under clause 5 of the LA. Both bring about a change in the contractual relationship between the parties. In the former case, the pre-existing contract is extended; in the latter it is terminated. That is not a material distinction: in each case, the counterparty (the recipient of the relevant notice) is entitled to see that the potential change in his contractual position is brought about by a person who is entitled, and whom he can see to be entitled, to bring about that change. Just as Lord Denning (and in agreement with him Roskill LJ) considered that the grantor could not be expected to act on a letter purporting to exercise the option which come out of the blue from someone or other of which he knows nothing, so too H&B cannot be expected to accept, as a notice under clause 5 of the LA, a notice which it had no reason to think came other than from the original Licensor, GNIC Arizona Oldco, which turns out to have come from an assignee of that company, namely GNIC, when it had never been given notice of the assignment. In each case, the recipient of the notice must be told that it comes from an assignee who has taken an assignment.
81. There are two other points of relevance. They are not major points, but they do lend support to the view that the Notices were not validly given.
82. The first point is that Clause 5.2(a) allows the Licensor to terminate the LA in case of material breach by H&B. Although it is no doubt the case that what is material must be viewed objectively, what is material in the context of the original Licensor, GNIC Arizona Oldco, may not be material in the case of an

assignee of the Trade Marks and the benefit of the LA and *vice versa*, (although in the case of the actual assignee, GNIC, there may be no difference, but that is not relevant). It is important for H&B to know what its obligations actually are and therefore to know to what entity it owes its contractual duties and, importantly, what entity is able to serve a notice relying on an allegedly material breach. A notice given by the wrong entity should be of no effect.

83. The second point is that Clause 5.2(b) also allows the Licensor to terminate the LA in cases of non-material breach in cases where the breach is capable of remedy. But this is so only if the Licensee fails to remedy the breach within 60 days after being given notice in writing (*ie* clearly notice from the Licensor although this is not expressly stated) containing full particulars of the breach and requiring it to be remedied. There is no reason, it seems to me, why H&B should be expected to act on the basis of a notice requiring the breach to be remedied if the notice comes from a third party unless H&B is on notice that the third party is entitled to service the notice, for instance as disclosed agent of GNIC Arizona Oldco or as equitable assignee under an assignment of which H&B has notice. If notice of an equitable assignment (taking place before the notice under Clause 5.2(b)) was given) is given during the 60-day period, perhaps near the end of that period, it cannot be right, in my view, that H&B has only the remaining days of that 60-day period within which to remedy its breach. The equitable assignee, GNIC, is simply not competent to serve a notice under Clause 5.2(b) unless and until notice of the assignment has been given to H&B.
84. Moreover, I am wholly unconvinced that either the assignee of the option in *Warner Bros* or GNIC in the present case have even a good case on the merits. Mr Baldwin asserts that H&B is acting opportunistically and argues that it is obviously unfair to GNIC to reach the conclusion that it was not entitled on serve the Notices. I take a very different view. In the present case, it should have been the simplest thing in the world for GNIC to serve notice of the relevant assignments on H&B. It did not do so. Indeed, for a considerable time, those on the GNIC side were maintaining that the Notices were in fact given by the original Licensor. This may have been due to a confusion about which company called General Nutrition Investment Company was in fact the Licensor under the LA; but that is a confusion for which only GNIC can be held responsible. I reject the submission that the present case is a paradigm example of a case in which the failure to observe a formal requirement, which impacts on the parties not at all, would serve to confer an unmerited benefit on one of them, leading to injustice, which is the *raison d'être* of equitable relief.
85. My conclusion, in the light of the lengthy discussion above, is that a notice under clause 5 given to H&B could not have been given by GNIC unless and until H&B had been given notice of the assignment of the benefit of the LA by GNIC Arizona Oldco to GNIC.
86. I add, by way of observation and not as part of my reasoning, two points:
  - i) The first is that Clause 5 of the LA also enables H&B to give notice of termination, including notice without cause on 3 months' notice. It is obvious, I venture to suggest, that if GNIC Arizona Oldco had not been



dissolved, a notice served on it by H&B under clause 5 would be effective in the absence of notice to H&B of any assignment to GNIC. It is probably the case that, once notice had been given, such a notice should be served on GNIC rather than GNIC Arizona Oldco; that, at least, is the mirror of GNIC's case concerning the giving of notice to, rather than by, H&B. This demonstrates the importance of notice in the context of equitable assignment. It seems to me that H&B is entitled both to give notice to and to receive notice from the entity with which it contracted in situations where it has no reason to believe that the benefit of the LA has been assigned.

- ii) The second is that I have not relied on any confusion which may have arisen as a result of the shared name of the assignor and the assignee – General Nutrition Investment Company, both incorporated in Arizona and both having the same corporate address. I address this potential confusion in the next part of this judgment, dealing with an alleged lack of clarity in the Notices.

87. My conclusion is determinative of the claim for declaratory relief. I have spent a great deal of time on it because it is of such significance. Having heard full argument, it is only right, nonetheless, that I should go on to consider the rest of the case, not least because of the possibility of a successful appeal from my conclusion.

#### Clarity of Notices

88. The next area of dispute relates to the clarity of the Notices and whether they are invalid because they are not sufficiently clear and unambiguous. There were five notices, as follows:

- i) A letter dated 5 August 2014 (“**the First Notice**”): this purported to terminate the LA under Clause 5.2(a), a large number of breaches being specified in the schedule to the letter. It also relied on Clause 5.6 (termination for non-use) in relation to a number of specified marks. These are the Unused Marks referred to in paragraph 6 above. The First Notice is addressed to H&B (under its then name NBTY Europe Ltd). It was signed by a Mr Stubenhofer, Chief Legal Officer and Secretary, for and on behalf of “General Nutrition Investment Company” whose address was given as 1002 South 3<sup>rd</sup> Avenue at Buckeys, Phoenix, Arizona, 85043. This was the address given in the LA for the Licensor (GNIC Arizona Oldco under its then name General Nutrition Investment Company).
- ii) A letter dated 19 September 2014 (“**the Second Notice**”): this was given without prejudice to the First Notice. This notice was given in case any of the breaches specified in the First Notice were capable of remedy; it was a notice under Clause 5.2(b) of the LA requiring the breaches to be remedied so far as capable of remedy and so was not a notice actually purporting to terminate the LA. The addressee and the signatory were as under the First Notice.

- iii) A letter dated 6 October 2014 (“**the Third Notice**”): this relied on the First Notice as a 60-day notice under Clause 5.2(b) of the LA. It alleged that no steps had been taken to remedy the breach and purported to terminate the LA under that same provision. The addressee and the signatory were as under the First and Second Notices.
  - iv) A letter dated 2 December 2014 (“**the Fourth Notice**”): this relied on breaches concerning sponsorship agreements (which I will come to in more detail later). This notice purported to terminate the LA under both clauses 5.2(a) and (b) of the LA. The letter was addressed to H&B and was signed for and on behalf of “General Nutrition Investment Company” at the same address as under the earlier Notices.
  - v) A letter dated 23 December 2014 (“**the Fifth Notice**”): this was a “belt and braces” notice relying on various alleged breaches to justify a further notice of termination under clause 5.2(b). The addressee and the signatory were as under the Fourth Notice.
89. There had been alleged breaches by H&B of the LA as long ago as 2008. On 3 November 2008, Mr Tyler, of McGuire Woods, US attorneys, wrote to Mr Craddock of H&B. He explained that his firm represented General Nutrition Companies Inc and its subsidiaries “including General Nutrition Investment Company (“GNIC”)”. Mr Tyler referred to the LA stating that under it “GNIC granted to [H&B] the exclusive right to Use GNIC’s Trade Marks...” and “GNIC also granted to [H&B] the nonexclusive right to use GNIC’s Unregistered Trade Marks”. He pointed out that H&B acquired no right to use “any other mark owned by GNIC and registered in the United Kingdom...”. Complaint was made about alleged breaches of the LA, which H&B was required to remedy within 60 days; failure to comply with this requirement would result in a termination notice.
90. The letter was clearly wrong in the following way. Either Mr Tyler was unaware that GNIC Arizona Oldco had been dissolved and, in referring to the subsidiary called General Nutrition Investment Company, thought that GNIC Arizona Oldco was his client; or he thought that the company then in existence, referred to by him, and in this judgment, as GNIC (being the claimant in this action) was the contracting party under the LA. The former possibility would be surprising since one might expect Mr Tyler to have known who his clients were. The latter possibility may be the explanation. But I have had no evidence about any of this and I can do no more than speculate. What is clear, however, on the evidence is that H&B had no idea at the time of Mr Tyler’s letter that it was sent other than behalf of the entity with which it had contracted, namely GNIC Arizona Oldco.
91. The position had not changed, so far as H&B is concerned, by the time of the First Notice or any of the subsequent Notices. H&B knew nothing of the changes to the corporate structure and had no idea that the company on whose behalf the First Notice was served – that is to say “General Nutrition Investment Company” – was other than GNIC Arizona Oldco. The First Notice itself gives no hint that “General Nutrition Investment Company” was

other than the company bearing that name which was the contracting party under the LA. Indeed, the objective reader of the First Notice and subsequent Notices, with the LA in one hand and the relevant Notice in the other hand would have no reason to think other than that the company giving the Notice was the same company as the company entering into the LA. I do not think it can possibly be suggested – and it has not been suggested – that H&B was under an obligation to take steps to confirm to its satisfaction that the contracting party and the person giving the notice were indeed the same person.

92. The position is to be contrasted with what it would have been if GNIC, the claimant, had adopted a different name (I take “Newco” for the purposes of the discussion) and if GNIC Arizona Oldco had retained the name General Nutrition Investment Company until its dissolution. Mr Tyler would not then have written as he did unless he too was unaware of the corporate restructuring and thought that the company which he referred to as GNIC was in existence and his client. But if he was aware of the restructuring, then he would have been aware that the LA was not made between H&B and Newco and would no doubt have taken steps to clarify the position and ensure that his letter constituted a notice under clause 5 on behalf of the person entitled to serve it. All he would have needed to do would have been to give H&B notice of the equitable assignment to Newco before serving any notice under clause 5 of the LA.
93. Similarly, if those preparing the First Notice and Mr Stubenhofer in signing it, had been dealing with a notice by a company called Newco, they would have had to focus on the identity of the person on whose behalf the notice was to be served. Had they done so, the First Notice could not have taken the form which it did. Mr Stubenhofer was not then the Chief Legal Officer & Secretary of GNIC Arizona Oldco since it had been dissolved; he would not have signed a notice on behalf of that company. Given the hypothesis that that company had not changed its name, he would not have signed a notice “for and on behalf of General Nutrition Investment Company”.
94. A notice could, in fact, have been served only on behalf of Newco under the scenario now being addressed. Even if the First Notice had retained the shape which it actually took, Mr Stubenhofer would not have signed it “for and on behalf of General Nutrition Investment Company”; rather, he would have signed if “for and on behalf of Newco”. I am bound to say that I think it unlikely that the First Notice would then in fact have taken the shape which it did. It is surely more likely that the First Notice would have given some explanation about why Newco was giving the Notice. Quite possibly, a proper consideration of the position would have triggered a realisation on the part of GNIC that notice needed to be given to H&B of the assignment.
95. But even if my speculation is wrong, the First Notice sent on behalf of Newco would have had an entirely different impact both on H&B and on an objective reader from that which the actual First Notice actually had on H&B. H&B clearly took the First Notice as a notice by the person with which it had contracted and thus as given by the person entitled to give it. H&B did not seek to challenge the First Notice on the ground that it was given by the wrong

person because it had no idea that that was even arguably the case. In contrast, if H&B had received a notice from Newco, its first reaction, one might think, would be to ask itself what on Earth Newco was and to have sought clarification from Mr Stubenhofer or someone else at the Phoenix address. The lack of notice of the assignment would then have been picked up by GNIC and appropriate steps could have been taken to give notice of the assignment and then to issue a replacement First Notice. Similar considerations apply to the subsequent Notices.

96. Mr Bloch submits that the First Notice and subsequent Notices were insufficiently clear to amount to valid notices even if he is wrong in his contention that GNIC, as equitable assignee, was not able to serve the Notices in the absence of prior notice of the assignment. He relies on the statement of principle in *Mannai Investment v Eagle Star Life Assurance Co Ltd* [1997] AC 749 concerning the clarity required of notices exercising contractual rights. That case concerned notices to terminate two leases but the same principles apply, in my judgment, to notices under clause 5 of the LA. In particular, Mr Bloch relies on what Lord Steyn said at p 768:

“Even if such notices under contractual rights reserved contain errors they may be valid if they are ‘sufficiently clear and unambiguous to leave a reasonable recipient in no reasonable doubt as to how and when they are intended to operate’”

97. The words quoted by Lord Steyn appear in the judgment of Slade LJ in *Delta Vale Properties Ltd v Mills* [1990] 1 WLR 445 at 454E-G. I agree with Mr Bloch that this means that, to be valid, a notice must be “sufficiently clear” *etc.* The error in the notice in *Mannai* was that, on a literal reading, it was one day short. The notice was, nonetheless, sufficiently clear and unambiguous for the error to be of no consequence. As Lord Steyn also said:

“*Prima facie* one would expect that if a notice unambiguously conveys a decision to determine a court may nowadays ignore immaterial errors which would not have misled a reasonable recipient”

98. It is to be noted that the notice in *Mannai* was given by the person entitled to give it. In the present case, the issue now under consideration is, transposing Lord Steyn’s statement, whether the Notices convey a decision to determine the LA. That must mean a decision by the person entitled to make it. The question is whether the Notices communicated sufficiently clearly and unambiguously to H&B (i) a decision to determine the LA and (ii) the identity of the person making the decision who was entitled to make it.
99. I agree, therefore, with Mr Bloch’s submission that a notice will fail that test if the identity of the person giving the notice is not sufficiently clear. In this context, he has referred me to *Lemmerbell Ltd v Britannia LAS Direct Ltd* [1999] L & TR 102 (CA) (“*Lemmerbell*”) and *Hextone Holdings Ltd v AHC Westlink Ltd* [2010] EWHC 1280 (“*Hextone*”).

100. In *Lemmerbell*, a company (“Direct”) was the tenant under a lease. An associated company, (“Life”), came to occupy the relevant premises, but there was no valid assignment of the lease from Direct to Life. Thereafter break notices were served, in the name of Life, which claimed to be “successor in title” to Direct, and which purported to terminate the lease. It was common ground that Life was not the successor in title to Direct. Nonetheless, Life argued (in proceedings against the landlord) that the defect in the notice could be cured on a proper construction of the notice. It argued that the notices could be construed so as to be understood as sent by Life acting as agent for Direct.
101. The Court of Appeal disagreed. As Peter Gibson LJ (after observing that the case seemed to him to bear little resemblance to the type of error addressed in *Mannai*) explained at pp115-116:
- “On the face of each notice, Life was said to be the tenant as successor in title to Direct and that, if true, could only have become about as a result of an assignment without consent. But such an assignment would be effective to make the assignee the lessee for the purposes of clause 7(x) [the break clause exercisable by “the lessee”]. The reasonable recipient could not know in the absence of proof of the assignment whether Life was the lessee. It might have been. If Life was not in fact the lessee but Direct was, the reasonable recipient could not know whether Amery-Parkes [Life’s solicitors] were authorised by Direct to act for it and to serve the break notice, contrary to the express terms of the notice. To my mind, because it is not obvious from each notice that there was an error in the name of the lessee, nor is it obvious who the actual current lessee was, nor whether [the solicitors filing the notice] were authorised by anyone other than Life, it is impossible as a matter of construction to cure what we now know to be the defect by substituting Direct for Life as the person on whose behalf Amery-Parkes were giving each notice.”
102. Mr Baldwin contends that this decision is distinguishable and unhelpful. He points out that Life was described in the notice as the “successor in title” to the tenant. However, assignment of the lease was not permitted without the consent of the landlord, which had not been given. So there was a good reason for the landlord to believe on the face of the notice that it had been sent by a party who was not entitled to serve it. The case is, of course, distinguishable on its facts. It is helpful, however, as an example of the sort of certainty which there needs to be if a notice is to be relied on as identifying sufficiently clearly and unambiguously who is giving the notice.
103. In *Procter & Gamble Technical Centres v Brixton Estates plc* [2002] EWHC 2835 (Ch), Neuberger J held that even where a notice had in fact been sent on behalf of the correct lessee, it was not obvious on the face of the notice who the current lessee was. It was at least as likely that a reasonable recipient of the

notice would have believed that the notice had been sent by an earlier lessee, or that a further unauthorised assignment had taken place. The notice was invalid. At paragraph 46 of his judgment, Neuberger J emphasised that:

“Notices of this sort, particularly if served near the last minute, as happened in this case, have to be clear and unambiguous because the recipient is entitled, and may need, to make dispositions in the faith of such notices, i.e. on the basis that such notices can be confidently relied on. If such a notice contains a mistake then, while any mistake which cannot possibly mislead a reasonable recipient should not stand in the way of validity, a mistake which could reasonably mislead a reasonable recipient cannot fairly be overridden.”

104. Again, Mr Baldwin submits that the decision is distinguishable and unhelpful. He points out the present case is not one where the Notices were served “near the last minute” in which case there is a more onerous obligation of clarity. He also points out that it was made clear that mistakes which cannot possibly mislead should not stand in the way of validity. Again, I accept that the case is distinguishable on its facts; but again it is a case which is helpful as another example of the sort of certainty which there needs to be if a notice is to be relied on as identifying sufficiently clearly and unambiguously who is giving the notice.
105. As to Mr Baldwin’s two particular points, the lateness of the notices of the sort in the case before Neuberger J was a significant factor because the recipient may need to make decisions based on such notices. Similarly, H&B in the present case had to take certain actions based on the Notices, which it might not have taken had they been aware that they were given on behalf of GNIC and not GNIC Arizona Oldco. In particular, insofar as reliance was being placed in clause 5.2(b) of the LA, H&B was entitled to 60 days’ notice from the person entitled to give such notice to remedy the relevant breaches. If the notice was not clear and unambiguous as to who was giving the notice, H&B was disadvantaged. The same can be said in relation to Mr Baldwin’s suggestion that at worst from GNIC’s point of view, there was a mistake in the Notices which could not reasonably have misled an objective recipient in the position of H&B.
106. In *Hextone*, the Court held a notice invalid where it was served by the parent company of a tenant without making clear whether the parent company was authorised to do so by the tenant. Mr Baldwin notes that the simple reason why the notice was invalid was because the named signatory was not the tenant’s agent.
107. Mr Baldwin makes the more general submission – a somewhat surprising submission to my mind – that even if (contrary to GNIC’s principal case) the Notices were unclear as to whether the sender was GNIC or GNIC Arizona Oldco, on either reading they would have been valid notices. I say surprising because, if the Notices purported to be given on behalf only of GNIC Arizona Oldco, they would clearly have been invalid since that company no longer

existed. It is irrelevant that, in some circumstances, an assignor may give notice as the original contracting party, albeit as trustee for the assignee, as in *Kapoor*: there is no scope of the application of that approach on the facts of the present case.

108. Further, even assuming (contrary to my earlier conclusions) that GNIC, as equitable assignee, was in theory capable of serving the Notices, the question is whether the Notices made clear that they were, indeed, being served on behalf of GNIC and not GNIC Arizona Oldco.
109. In my judgment, the First Notice was invalid because it was not clear and unambiguous in the way indicated by the authorities which I have mentioned. An objective reader of the First Notice in the position of H&B having no notice any assignment would have understood the First Notice to have been given on behalf of the person with whom H&B had contracted. It makes no difference to that conclusion that that person, GNIC Arizona Oldco, had in fact ceased to exist. It is not appropriate to impute to the objective person (or to H&B) knowledge of either (i) GNIC Arizona Oldco's dissolution or (ii) of the fact that a new company had, at the time of the notice, the name General Nutrition Investment Company. It is not appropriate to do so because, in my view, it is not reasonable to expect a recipient of the First Notice to make enquiries to satisfy themselves that the giver of the First Notice was indeed the company with which it contracted and not some other company with the same name. GNIC is between a rock and a hard place. On the one hand is the rock, namely that the First Notice is not a valid notice given on behalf of GNIC Arizona Oldco because, at the time of the First Notice, GNIC Arizona Oldco had already been dissolved. On the other hand is the hard place, namely that an objective reader of the First Notice in possession of the information which the reasonable objective person would have or acquire, would have no reason to think that the notice was given on behalf of any other company. Accordingly, even accepting that the First Notice was in fact given on behalf of GNIC (the claimant), it would not have been understood by an objective recipient as having been so given.
110. Accordingly, the present case is not to my mind really one of a lack of clarity or of ambiguity on the face of the Notices. An objective reader of the Notices in the position of H&B would have understood them as clearly and unambiguously given purportedly on behalf of GNIC Arizona Oldco. It is only subsequent information, namely the fact of the corporate reconstruction and the transfer of the Trade Marks and the assignment in equity of the benefit of the LA to GNIC that it can be seen that the First Notice was in fact given on behalf of a different company bearing the same name. That means in my judgment that the First Notice was, at best from GNIC's point of view, unclear and ambiguous.
111. In my judgment, H&B therefore succeeds also on this ground of challenge to the validity of the First Notice. Similar considerations apply to each of the subsequent Notices.

### **Other points of construction**

112. A number of points of construction of the LA have been raised from time to time. I confess that I am not clear which, if any, of these points remain contentious. The following issues are identified in Mr Baldwin's written closing submissions and are ones which it appears, as he puts it, I will need to resolve:
- i) Is H&B bound by contract not to use the Trade Marks other than in accordance with the LA?
  - ii) In clause 5.2(a), do the words 'to an extent likely to cause material loss to the Licensor' qualify the whole of the clause or merely the last three lines?
  - iii) In clause 3.1(d), what is meant by incorporation by addition?
  - iv) Does the scope of the licence in relation to products allow the promotion of products by the sale of different products?
  - v) Does the LA include an obligation of good faith on the parties?
  - vi) Are the Trade Marks and goodwill associated therewith held on trust by GNIC for H&B?
  - vii) Will use by GNIC of the Unused Marks after termination of the LA be an implied derogation from grant, *ie* a breach of contract?

I take those questions in turn.

113. **Is H&B bound by contract not to use the Trade Marks other than in accordance with the LA?** The focus of this question must, I consider, be use within the UK since the position so far as concerns countries outside the UK is clear: it is that there is an express prohibition in clause 2.7 of use outside the UK in relation to Products, use in this context including promotional activities (such as advertising) in accordance with paragraph (b) of the definition of "Use or Used" in clause 1 of the LA.
114. So far as use within the UK is concerned, I do not need to answer this question. This is because the activities in the UK on the part of H&B about which GNIC complains and on which it now relies are all ones which it is claimed fall within clause 3 of the LA. Clearly, if that is correct, GNIC was then entitled to invoke clause 5 and, if the breaches of clause 5 were material, GNIC was entitled (subject to the answer to the second issue concerning material loss to which I will come) to bring the LA to an end. If those activities do not fall within clause 3, I do not understand it now to be contended, whatever the position was in the past, that they nonetheless amount to a breach of contract which would entitle GNIC to terminate the LA.
115. **In clause 5.2(a), do the words 'to an extent likely to cause material loss to the Licensor' qualify the whole of the clause or merely the last three lines?** I consider the answer to this to be clear. The quoted words qualify only the words "otherwise infringes the Licensor's rights under the Trade Mark". That is the natural reading, in my view, of the provision. The draftsman is clearly intending that a material breach should give rise to a right to terminate; but he covers also the possibility that the Licensor might suffer material loss by an infringement of its rights under the Trade Mark – not under the LA – and provides for termination of the LA in



such circumstances. If the quoted words were intended to qualify the whole paragraph, it is not easy to see why the word “material” would need to be included in lines 1 and 3 at all. On that construction, a breach of the LA would have to be both “material” and be likely to cause “material loss”, whereas any infringement of the Licensor’s rights under the Trade Mark (but not the LA) would not itself need to be material but would only need to cause material loss. In practice, there is likely to be alignment between what is a material breach and what is likely to cause material loss.

116. This construction is consonant with paragraph 5(2)(b). This applies where H&B, as contracting party, commits “any other breach”. If the breach is remediable and is not remedied following notice, then the LA can be terminated. Clearly, there is no requirement that the breach should cause material loss. It would be odd to my mind that in the case of material breach there needed also to be material loss, but in the case of non-material (but remediable) breach, there is no requirement to establish material loss.
117. **In clause 3.1(d) what is meant by incorporation by addition?** I postpone answering this question until discussion of the question of breach below. H&B’s case is that the words SPORTS NUTRITION are not incorporated to the GNC mark but are simply a strap-line. GNIC’s position is that H&B are saying that clause 3.1(c) is only concerned with the distinctiveness of the mark, that is to say the origin function. Mr Baldwin submits that this is incorrect because trade marks have other essential functions, for example the communication/advertising function. The clause is concerned with the impact of those functions.
118. **Does the scope of the licence in relation to products allow the promotion of products by the sale of different products?** The issues with which this question is concerned are not, in practice, as wide as the question may suggest. Insofar as it is relevant, I deal with the substance of it later in this judgment.
119. **Does the LA include an obligation of good faith on the parties? Will use by GNIC of the Unused Marks after termination of the LA be an implied derogation from grant, ie a breach of contract?** I deal with this question, so far as necessary, when dealing with H&B’s counterclaim.
120. **Are the Trade Marks and goodwill associated therewith held on trust by GNIC for H&B?** Clause 3.2 of the LA provides that H&B acknowledges GNIC’s ownership of the Trade Marks and agrees that any goodwill accruing as a result of the Use of and attributable to the Trade Marks by H&B shall be for the benefit of GNIC. GNIC appears to think that H&B are claiming that the Trade Marks and goodwill are held on trust for H&B. That is not quite what H&B has ever said. The high point of the claim is found in H&B’s written opening submissions. In those submissions it is (correctly) said that although goodwill ultimately accrues for the benefit of GNIC it may, for the duration of the Licence, be exploited by H&B. Clearly, GNIC could not prevent H&B from using what had been licensed to it by claiming that by doing so H&B would be exploiting goodwill which had accrued by reason of the licensed use. The written opening submissions then stated that “[D]uring the period of such exploitation the Licensor must hold the relevant goodwill on trust for the Licensee’s benefit. It is the Licensee which operates the business and exploits the goodwill for the duration of the Licence Agreement”. To use the words “hold.... on trust” is not, I think, a helpful way of making the valid point which is that the accruing goodwill is

all part and parcel of the business; the business belongs to H&B and an asset of the business is the benefit of the LA. The answer to the question as formulated is, I consider, “No” but it is not a helpful question or answer in the context of the dispute.

121. **Will use by GNIC of the Unused Marks after termination of the LA be an implied derogation from grant, ie a breach of contract?** I deal with this question too, so far as necessary, when dealing with H&B’s counterclaim.

#### **The Substantive case – introductory remarks**

122. I now turn to the substantive case on the footing that I am wrong in my conclusions so far with the result that the Notices were served by the person entitled to serve them and are not open to attack because they were insufficiently clear and unambiguous.
123. Although the Notices list a plethora of alleged breaches of the LA, some material and some not material, Mr Baldwin has focused on the most significant breaches. He recognises that if I do not find in GNIC’s favour on those breaches, I would be highly unlikely to do so on the other breaches. Conversely, if GNIC succeeds in relation to those breaches, it simply does not matter whether the other breaches are material or have not been remedied.
124. I will be coming to the issue of materiality in some detail later in this judgment, but I note at this stage that one of GNIC’s expressed concerns is that the alleged breaches have damaged, or run the risk of damaging, the GNC mark globally as well as in the UK. GNIC alleges that the GNC mark is carefully protected by GNC throughout the world and, in particular, a balanced approach is taken so that the mark is perceived as a general health and wellness brand, and is not focused on any particular aspect of the products sold under the mark. Thus, for example, to market GNC as a brand focused on body-building would be damaging to the mark because certain sections of the customer base would be put off GNC products by its association with body-building. The image of a highly muscular man or woman displaying his or her highly toned body might not be found attractive by the customer of health foods and health supplements. The suggestion is that what H&B has done by its promotion of the GNC brand in relation to sports nutrition is damaging in the same way. This suggestion feeds into the complaints which are now relied on, although it operates differently within and outside the UK.
125. Inside the UK, the extent of GNC/GNIC’s control of the use of the marks is limited by the terms of the LA; in that context, however, it is said that there has been a breach of the LA (i) by unauthorised use of the GNC mark and (ii) because the narrowing of H&B’s business under the GNC mark to sports nutrition amounts to a breach of clauses 3.1(b) and 4.4 of the LA (not to use the Trade Marks in a manner which is derogatory or will cause a material dilution in GNIC’s rights in the Trade Mark; not to do anything which substantially impairs GNIC’s rights). Under (i), the focus of GNIC’s case is now on the use of an alleged alpha addition to the licensed GNC mark of “SPORTS NUTRITION”, and the sub-licensing of certain marks to the Leicester Football Club plc (“**the Tigers**” or “**the Club**”), the well-known rugby football club, not to be confused with the equally well-known association football club also based in Leicester.

126. Outside the UK, it is said that there has been use of the GNC mark which is simply not licensed by the LA; that this use is a breach of the LA; and that it is a material breach because it is an interference with GNC's careful control of its brand globally. Complaints made in relation to the sub-licensing agreement with the Tigers include resultant overseas promotion of the GNC mark (which included promotion of the mark GNC SPORTS NUTRITION).
127. By adopting the approach which he does, Mr Baldwin might hope to sidestep some criticism which is levelled at the width of the First Notice. To understand that criticism, it is relevant to draw attention to a particular feature, to which Mr Bloch draws attention, of the background to the service of the First Notice. It is that, in 2013, GNIC apparently decided that it would attempt to expand its business in Europe, and explored the possibility of buying the GNC UK business back from H&B. That purchase did not happen. But GNIC did acquire a competitor of the GNC UK business, Discount Supplements Ltd ("**Discount Supplements**"). It appears that Discount Supplements did not prosper, which may have had something to do with the fact that use could not be made of the Trade Marks. GNIC eventually sold Discount Supplements.
128. In 2014, and thus not long after it had acquired Discount Supplements, GNIC served the First Notice. This alleged an array of breaches of the LA and infringements of the Trade Marks, all of which were said to be material breaches and/or to have caused GNIC material damage, and all of which GNIC claim to be irremediable.
129. Mr Bloch's criticism is that many of the activities of which GNIC complains in the First Notice had been going on since before the sale of the business to H&B in 2003 (for example the sale of items other than Products in the stores). Other activities complained of, such as H&B's sponsorship activities, were promoting the GNC UK business in a manner to which, on H&B's case, no reasonable licensor could sincerely object even supposing that it had a basis upon which to do so. A number of the alleged breaches are, Mr Bloch submits, self-evidently trivial. Yet, in its Particulars of Claim, GNIC goes so far as to suggest that the activities of which it complains in the First Notice were repudiatory and that it was entitled to terminate the LA on that basis alone.
130. The Second Defendant ("**H&DC**") is a wholly owned subsidiary of H&B. The Particulars of Claim do not distinguish between the Defendants for the purposes of the contractual claims. Mr Bloch submits that there is no basis for suing H&DC under the LA to which H&DC was not a party.
131. It is H&B's case that GNIC's complaints lack merit and that GNIC has made them with a view to disrupting the GNC UK business and forcing H&B to give it up. The evidence confirms, in H&B's submission, that GNIC's case as a whole has been contrived in order to enable the GNC Group to re-enter the UK market under the GNC brand.
132. It is worth mentioning, in this context, the words of Carl Seletz of the GNC Group, by email dated 9 September 2014 (after the First Notice) to a brand consultant:
- "First off, GNC foolishly, while owned by a PE firm some 15 years ago, sold the Brand name and the rights for GNC in the

UK to Holland & Barrett. Similar to the old La Senza issue. So we have nothing to do with the stores there except to have people believe it is part of our company! Trying to get the name back now. Will take a while...”

133. In other words, it is argued that GNIC’s claim is opportunistic (my word, not Mr Bloch’s). This sort of opportunism is, however, different in kind from that levelled by Mr Baldwin against H&B in relation to the issue concerning the correct party to give notice under clause 5 of the LA. The opportunism of which H&B stands accused is no more or less than standing on its legal rights. The opportunism of which GNIC stands accused is, in essence, that it is relying on breaches alleged to be material breaches when, in reality, those breaches can be of little or no real concern to it. I will have to assess the validity of that complaint by Mr Bloch after a review of the evidence.
134. Mr Bloch describes GNIC as having succeeded so far as disruption is concerned. Albeit, he says, out of an abundance of caution, H&B has been obliged to cease conducting the GNC UK business in the manner that it would have wished to. However, H&B is not minded to give it back. H&B contends that, if (as is alleged) GNIC has stepped into the shoes of GNIC Arizona Oldco, it owed an obligation of good faith and non-derogation from grant, and that pursuit of its meritless complaints is in breach of both obligations. H&B seeks both declarations and damages.

#### **The Witnesses and documentary evidence generally**

135. I have received a considerable amount of evidence, both from live witnesses and in one case from a witness who was unable to attend leaving me only with her witness statement, and also a considerable amount of documentary material. I have felt it proper to consider a significant amount of that material in this judgment although, as will (eventually) be seen, much of what I do consider is only of marginal relevance (at best) and of no relevance at all (in some instances). The reason why I consider it at all is because it has featured in the closing submissions of both sides and also because it could be of relevance if a different approach to the issues were taken from the one which I think is correct.

#### **GNIC’s witnesses**

136. GNIC called four witnesses, Darryl Green, Gavin O’Connor, Shawn Cupples and Karen Wilson. I shall say something about each of them at this stage, making some findings of fact as I go along.
137. **Darryl Green.** Mr Green was employed by General Nutrition Centres, Inc (“GNC”) for over 25 years in various roles (with a 2-year break from June 2001 to 2003), until his retirement from his final position of President of Domestic and International Franchising in September 2014. Mr Green still operates personally several GNC franchise stores in the US. He had very substantial experience of the business internationally. There is nothing to suggest that he was ever directly employed by GNIC.
138. From 2005, it appears that his area of operation was exclusively in relation to GNC’s extensive franchising operation. Although he saw himself as an expert in relation to

the GNC brand, his real area of expertise, if that is the right word, was franchising. He had familiarity, of course, with other aspects of the GNC business. He was, however, called as a witness of fact and not as an expert witness. To the extent that his evidence might have strayed into realms which one would expect to be covered by expert evidence, I take no account of it, not least because he was not called as an expert and that he lacked the independence to act as an expert in this case in the field of branding. So far as Mr Green's actual knowledge of matters relevant to the present dispute, Mr Bloch correctly points out the following:

- i) Mr Green had no involvement in the transaction which resulted in the LA;
- ii) he did not have intimate knowledge of the terms of the LA;
- iii) during the many years he was employed by GNC in the US, he never had occasion to look at the LA;
- iv) he was not involved in the discussion which led to the issue of the First to Fifth Notices;
- v) he knew no one who was involved in those discussions, beyond GNIC's attorneys and solicitors;
- vi) he had not spoken to the business side of the GNC Group in relation to any of the alleged breaches; and
- vii) the United Kingdom was not a country for which he was responsible at any time during his employment with the GNC Group.

139. Mr Baldwin contends, however, that the evidence which Mr Green gave was clear and straightforward and should be accepted. Mr Bloch, on the contrary, contends that such evidence was unreliable. For example:

- i) Mr Green asserted in his first witness statement that H&B benefits enormously from GNC's global reputation and goodwill. Mr Bloch says that he had no basis for doing so, correctly pointing out Mr Green's explanation in cross examination that this was an assumption premised upon the number of flights between the US and London, and the nature of the global economy generally.
- ii) Mr Green adopted, in his first witness statement the claims of Mr O'Connor (whose evidence I come to in a moment) as regards the "very serious consequences" said to flow from the use of the GNC brand by one local partner (*ie* a franchisee) in the territory of another. Mr Bloch suggests that there is no basis for taking any of those assertions seriously, particularly as none of GNIC's witnesses could think of any examples at all of such consequences so far as promotion or marketing was concerned. Moreover, the relevant paragraph of Mr O'Connor's witness statement is described by Mr Bloch as misleading. I will be considering that point when addressing Mr O'Connor's evidence. Jumping ahead, there is some force in Mr Bloch's criticism of Mr O'Connor and therefore force in the corresponding criticism of Mr Green. Either Mr Green focused on the point in which case his evidence is misleading in the same way as that of Mr O'Connor; or he adopted Mr

O'Connor's evidence on this point without focusing on the particular aspect now under consideration, in which case his evidence is of no assistance.

- iii) In relation to the damage said to flow from assertions of ownership in the marks, Mr Bloch relies on unsubstantiated assertions made by Mr Green in his first witness statement. In the context of suggestions by GNC that H&B was asserting ownership of some of the Trade Marks, Mr Green said that he had "no doubt that this will damage GNC's brand equity in a significant way". I am bound to say that this reader of that part of his evidence was left with the impression that Mr Green was relying on assertions of ownership by H&B which he had identified for himself and that he considered those assertions to be damaging. However, in cross-examination, it became apparent that he was speaking only of matters of principle and not of the examples which are relied on by GNIC; he had not looked at the particular instances where such ownership was said to have been asserted by H&B or the effect which those assertions might have. In other words, all that he was saying was that assertions of ownership by H&B had the potential for causing damage. Whether damage would be caused would obviously, I add, depend on the context in which an assertion of ownership of the Trade Marks was made.
  - iv) Mr Green further asserted in his second witness statement that GNC takes care to balance different forms of advertising or promotional activity to ensure that no one section of its customer base is targeted at the expense of others. Mr Bloch maintains, correctly in my view, that cross-examination exposed that Mr Green was completely unable to explain how that worked in practice. I agree with him that it was in fact clear from Mr Green's answers that the group simply attempts to exploit all opportunities to increase the profile of the mark as may arise. That is all Mr Green meant by balance.
140. **Gavin O'Connor.** Mr O'Connor is an attorney who has been employed by GNC (*ie* GNIC's holding company) for 6 years. Over the years, he has held a number of positions within GNC. He joined GNC in July 2010 as General Counsel for Corporate Affairs and International. His duties included the management of GNC's international trade mark portfolio, including applications for new marks, oppositions against infringing applications and enforcement of existing marks. He was and remains responsible for providing legal support for GNC's international corporate business and 'partnerships', by which he means any GNC commercial activity outside the US or Canada, conducted by way of franchise relationships. He deals with the negotiation and enforcement of these arrangements. He is currently Vice-President and Chief Compliance Officer, a role he has held since March 2013. He is responsible for legal support for all domestic and international corporate transactions and for GNC's international trade mark portfolio, as well as company-wide compliance.
141. It can be seen that Mr O'Connor is not from any part of the GNC business which is concerned with the impact of any particular action on brand image or brand equity. Indeed, as Mr Bloch correctly points out, Mr O'Connor accepted in cross examination that he was not qualified to judge such matters. It was apparent from his answers the nature of the market was not his field.
142. Mr Bloch also submits that, in some respects, Mr O'Connor's evidence was also manifestly false or overreaching on a number of points. He gives these examples:

- i) In his first witness statement, he claimed that the parties “in all material respects have conducted themselves in the mutual understanding that the Claimant has, at all material times, been the Licensor.” Mr Bloch submits that there was no basis at all for that assertion. I agree. Indeed, Mr O’Connor eventually accepted that the letter on which he particularly relied (a letter from Mr Dave Sullivan to H&B dated 7 November 2003) was not evidence of a mutual understanding at all material times. Reading the relevant paragraph of Mr O’Connor’s witness statement prior to the hearing, I certainly gained the impression that the documentation to which he referred would demonstrate the mutual understanding; but when taken to it, I learned that my impression was wrong.
- ii) Mr O’Connor suggested that were numerous occasions over the years when legitimate competition had spilled over into illegitimate tactics by H&B. He asserted that the “only reasonable conclusion” to draw from these tactics was that “at some level” within the H&B group a decision had been taken either intentionally and repeatedly to encroach upon the rights of the GNC Group or to “sail as close to the wind as possible”. Having heard his answers to Mr Bloch’s questioning, I do not consider that Mr O’Connor had any proper evidential basis on which to make these serious criticisms, especially in the light of Mr Craddock’s evidence.
- iii) Mr O’Connor stated in his first witness statement that the GNC Group had “active franchisees” in Serbia, Montenegro and a number of other countries. Mr Bloch says that this was simply misleading so far as concerns Serbia and Montenegro. I agree. The position is this. In fact, as Mr O’Connor accepted, there was no franchisee operating in the territory at the relevant time (the date of the television broadcasts complained of, to which I will come) and even today there are no stores opened by that franchisee. More importantly, Mr O’Connor attempted to justify his statement relating to a franchisee or franchisee in Serbia and Montenegro by reference to intending franchisees who had entered into contracts but who had not yet opened stores. One might have hoped that Mr O’Connor would have explained that in his witness statement instead of giving the impression that franchises were actually in operation; however, that does not matter much since at the time of the broadcasts complained of, no contract had been signed so that, even on Mr O’Connor’s definition, there was no active franchisee in Serbia or Montenegro.
- iv) Mr O’Connor asserted in his first witness statement that there were a number of “very serious consequences” resulting from what can be described as leakage from one territory to another of marketing or promotional activities. Mr Bloch pressed him about this; he asked whether there was any example where GNC had needed to address an issue (*ie* a complaint from a franchisee) “simply as a result of one franchisee... objecting to the way in which the brand is represented in a broadcast or other marketing and promotional activity that has spilled over from one territory to another”. Mr O’Connor was unable to think of a single example. He accepted that what he had said in his witness statement was really directed at sales from one territory into another; and he accepted that he could not think of an occasion where damage had occurred

solely because of cross-territory marketing. Nor was Mr O'Connor able to think of an example of what he described as "relationship strain" other than where direct sales were made into another territory.

- v) And so, Mr Bloch submits, Mr O'Connor's evidence simply does not assist the Court.
143. Mr Baldwin does not have a lot to say about Mr O'Connor or to explain why his evidence assists. I do not dissent from Mr Baldwin's assessment that Mr O'Connor, in his cross-examination, sought fairly to answer propositions that were put to him and that he did not evade or prevaricate, doing his best to assist the court. This does not explain what Mr Bloch describes as false (I would use a more neutral word, mistaken) or as overreaching statements in his witness statement.
144. **Shawn Cupples.** Mr Cupples has been employed by GNC (*ie* the parent company) for more than 20 years. He joined the company in 1994 as a Manager, in GNC's Budgets and Analysis team. He is currently Vice President of GNC's International Business Development team. His job is directed towards extending the brand internationally, by identifying potential strategic partners, and cultivating relationships with existing partners, whether as franchisees, licensees, acquisition targets or manufacturing partners.
145. Over the years, he has held a number of positions within GNC, including in its US and UK businesses. His roles have primarily been in GNC's finance teams, and he has been involved with the company's financial planning, internal reporting, auditing, financial analysis and acquisitions.
146. Mr Cupples was put forward to explain GNC's commercial strategy in relation to the UK and to set out his recollections of the dealings between GNC and H&B so far as relevant.
147. Mr Baldwin submits that Mr Cupples was very knowledgeable about GNC's business and that he gave his evidence fairly and straightforwardly. I am sure that Mr Cupples, in the witness box, was doing his best to help the Court. The picture painted by his oral evidence was rather more complete than his witness statement.
148. Mr Bloch suggests that Mr Cupples' witness statement did not reveal the true strategy, which Mr Bloch submits was, in effect, to recover the Trade Marks by engineering the termination of LA so as to be able to trade in the UK under the GNC brand. That is not, in my view, an entirely fair assessment. By way of background to Mr Cupples' evidence, the GNC group had, as I have already explained, attempted to re-enter the UK market through its acquisition of a sports nutrition company, Discount Supplements. That acquisition had not been a success. Mr Cupples' evidence was to this effect:
- i) He accepted that one of the reasons for the failure of the Discount Supplements venture was the inability of GNC to use the GNC marks in the UK.
- ii) He accepted that the possibility of GNC acquiring the H&B's GNC brand and business had been considered within GNC. He was not personally involved in



any discussions (the existence of which, but not any detail, I should state is apparent from the documents), although the question whether GNC could “buy our old stores back” was raised with him in August 2013 by Margaret Peet.

- iii) Insofar as the GNC group was interested in acquiring the GNC UK business, this was not because anyone in the business was saying that damage was being caused to the brand, whether by the use of an inconsistent brand image or spillover.
- iv) Rather, acquisition of the UK business would have resulted in a consistent approach to the use of the brand across different countries and would have made easier his task of explaining to potential business partners and franchisees the differences between the UK and elsewhere.
- v) He had given consideration to the possibility of obtaining the “gnc.london” domain. In an email exchange with Margaret Peet, he commented “Buy to stop NBTY”. He saw having this domain name “as one more thing that was out of the control of [H&B]” and one less thing to deal with when explaining to potential partners the difference between GNC UK and GNC US. He gave this telling answer to Mr Bloch’s questioning about confusion between the GNC US business and the UK business conducted by H&B:

“My personal view on that is, if we had at least something that we could control and portray in a similar manner, or at least have control or approval over and present the brand in a particular way that was consistent with the US, that could potentially force, at least Holland & Barnett/NBTY Europe, to move to something that was a level of consistency of what we had in the US, and then at least that would be a small win.”

- vi) Mr Cupples suggested, before giving that answer, that to have control of the domain name would help, if only in a small way, to minimise the risk of confusion between GNC US and GNC UK. Mr Bloch expressed difficulty understanding that since, as he put it, “gnc.london is going to be associated with the UK, is it not?” to which Mr Cupples answered “potentially, or London, Ontario, I do not know”. Shortly thereafter, Mr Cupples eschewed the proposition that the reason for snapping up this domain name related to the possibility that London would be seen as a reference to London, Ontario”. This is a small point. I labour it only because Mr Bloch relies on it as an indication that Mr Cupples was willing to argue a case, however ridiculous, so that I should approach his evidence with caution. I do not accept that as a fair characterisation of Mr Cupples’ answers. A reading of the entirety of the relevant passages of the transcript does not lead to that conclusion.
- vii) GNC had also considered expanding its business into the UK and Ireland selling own-brand products. The products included the “GNC Herbal Plus” range. It went as far as announcing a launch of these products. I understand that GNC did not in the end in fact sell products in the UK under the GNC Herbal Plus label, GNC having given an undertaking in the course of these proceedings not to do so in the face of objections from H&B. Mr Cupples

accepted that, had the launch been pursued, it would potentially have forced H&B to the table.

149. Although Mr Cupples' evidence was consistent with the strategy which Mr Bloch asserts, it is also consistent simply with protection of GNC's own brand and a desire to see it promoted in the UK in a way more consistent, as GNC perceived matters, with the promotion of the brand in the US and other countries than was the case. However, Mr Cupples' evidence is important in demonstrating two matters.
- i) First, without necessarily having an agenda to force H&B to sell its GNC business to GNC or to become a franchisee, GNC was constantly looking for ways to protect and enhance its own position, including (a) taking business opportunities in the UK in competition with H&B and (b) blocking H&B from taking steps which, in GNC's view, might lead to confusion with its US business. If permissible steps under (a) would have the result of "forcing H&B to the table" then GNC's attitude was "so be it, all well and good".
  - ii) Secondly, there was no suggestion that GNC's wishes and attempts to expand into the UK market in 2013/14 were driven by concerns that H&B was causing any damage to the GNC brand anywhere in the world. The same can be said for its acquisition of the gnc.london domain name.
150. **Karen Wilson.** Ms Wilson has worked in the UK health and nutrition industry for 18 years. She joined GNC (*ie* GNIC's holding company) in June 1998 in the role of GNC brand product coordinator. She was based at the Health & Diet Food Company ("H&DF") site at Kearsley, Manchester. H&DF is the wholesale and distribution arm of the Health & Diet Group ("HDG"), which GNC acquired in 1995. She initially reported to the Operations Director, Peter Valentine, but worked closely with Margaret Peet who was running Health & Diet Centres Limited ("H&DC") and the GNC retail business from Godalming, Surrey. She was, as she describes it, "the only specifically focussed GNC retail person based in Manchester". Her role was to support the GNC retail business, including by monitoring and reporting on stock level, supervising importation of GNC products from the US, checking US product specifications for UK compliance and then preparing compliant label copy to UK regulatory requirements, and monitoring the packing and distribution of GNC products.
151. In early 2000, still based in Kearsley, she was promoted to GNC Brand Manager and reported directly to Margaret Peet. Her responsibilities included overseeing product lifecycle and marketing. She was also responsible for introducing GNC products from the US into the UK, and for ensuring that these products complied with applicable UK and EU regulations. She remained in this role until HDG was acquired by H&B. She had no involvement in the acquisition itself, and disavowed any knowledge of the nature of the deal. I am not clear who Ms Wilson's actual employer was, but it appears that it must have been one of the companies within the group acquired by H&B. Nothing turns on that save that she resigned from her employment after a few months of working under the H&B management.
152. From 2003 to 2014, she worked in a number of different marketing and product management roles in the medical and health and nutrition sectors. She returned to GNC in May 2014 to take up the role of European Brand Manager. Her

responsibilities included developing launch and marketing strategies for GNC's consumer-facing brands, supporting the US International and Brand Teams in the UK and other European territories, and managing the change of labels to work for the local market. In June 2016, her title changed to that of Manager, Strategic Business Development International. She reports to Mr Cupples. She is responsible for supporting a full range of strategic planning, business development, and mergers and acquisitions functions, with a primary focus on developing and implementing strategies for bringing GNC brands to International markets.

153. It can be seen from that resume that Ms Wilson had extensive knowledge of at least certain aspects of the UK GNC business at all material times. Mr Baldwin submits that she was clear in her evidence that GNC, prior to 2003, was a general nutrition retailer where sports nutrition was one part of the retail offering and that her (unchallenged) evidence was that H&B has narrowed the GNC brand from a general health and wellness brand to focus purely on the sports nutrition market. It is true that that was the evidence in her witness statement.
154. Mr Bloch, however, submits that that evidence was revealed under cross examination to be overstated and without proper basis:
- i) Mr Bloch contends that Ms Wilson recognised the historical stereotype of the GNC brand referred to by Jeff Hennion, the Chief Marketing and E-Commerce Officer at GNC Holdings Inc. This is a reference to what Mr Hennion is reported (in an online edition of the Pittsburgh Post-Gazette for 20 May 2016) as saying in a speech to the Pittsburgh Technology Council entitled "Transitioning GNC marketing to a Data-Driven Culture". This speech concerned the use of customer analytics to drive marketing. The relevant paragraph of the report reads as follows:

"GNC, he said, wants to shake the "historical stereotyping" image of an intimidating storefront tailored for body builders. In that respect, the company's 87 per cent brand familiarity "is not always a good thing when you're trying to change a brand.""
  - ii) One of the slides used by Mr Hennion for that speech was headed "Customer Goals" and included this: "Listening to our customers drove critical goals that aligned with our segments, including: ..... The need to drive an increased number of female customers..... Reducing the reliance on hard core sports customers (the old GNC bodybuilders)".
  - iii) Mr Baldwin does not dispute that Mr Hennion said what he is reported as saying nor does he deny that the slide was included in the presentation. What he does say is that, taking what Mr Hennion actually said with the slide, it is a misrepresentation by Mr Bloch to characterise the evidence in the way that he does, that is to say as a recognition that GNC was perceived as a sports nutrition brand. The relevant part of the presentation was about customer goals as the slide makes clear. According to Mr Baldwin, what Mr. Hennion was saying in the slide was that GNC wanted to reduce reliance on sales to bodybuilders and expand on sales to, for example, female customers. He is talking about the customers that he thinks GNC should focus upon.

- iv) However, I think that rather more than that can be taken from Mr Hennion's presentation. I accept that in the US (which is what Mr Hennion was talking about), whatever the position was in the UK, GNC was not an exclusively sports nutrition brand. But equally it is clear that part of the brand was, indeed, sports nutrition including bodybuilding. From what Mr Hennion was saying, it is clear that he, at least, thought that an important part of that brand in the perception of consumers was its bodybuilding image. He acknowledged the historical stereotyping image of intimidating storefront tailored for bodybuilders and he acknowledged the need to reduce reliance on hard-core sports customers (the old GNC bodybuilders); this was a historical stereotyping as he described it and therefore not something, I infer, which had recently come about. Whatever the actual spread of business may have been, the perception of consumers as Mr Hennion presented matters was that the hard-core sports element was significant (exemplified by the historical stereotypical shop front) and the business reliant on that element (reducing reliance on hard core sports customers). And so Mr Hennion, as reported, said that GNC's "87% brand familiarity is not always a good thing when you are trying to change a brand" and "I'd like to introduce a brand to the consumer for the first time again". These statements – in the absence of evidence from Mr Hennion himself to explain how his words should be read – are consistent, in my view, only with the view that at least one significant image of the GNC brand was that of a hard-core sports nutrition retailer and that he wished GNC to get away from that image.
- v) After that digression, I return to Ms Wilson. Mr Bloch is correct to describe her as recognising the historical stereotype of the GNC brand as explained by Mr Hennion. Mr Bloch showed her the newspaper report and asked her the question "You recognise what he is talking about there do you not?" to which she answered "Yes, I do". Moreover, when asked about the slide, she was directed to the goal of "Reducing the reliance on hard core sports customers (the old GNC bodybuilders)" and again said that she could recognise the image that Mr Hennion was referring to. I do not think much of Mr Baldwin's point that Ms Wilson was not saying whether she agreed or disagreed with what Mr Hennion was saying. It is surely implicit: she did not say words to the effect "Oh no, I did not see things like that at all". However, recognition of those aspects does not indicate that she considered the GNC brand in the UK was focused sports nutrition and bodybuilding. It is, however, recognition that the GNC brand included those elements. It is also a necessarily implicit recognition that there was a stereotypical image of GNC as a hard-core sports nutrition retailer – not exclusively hard-core sports nutrition or even sports nutrition more generally but with a focus on that element of its business - and that there was a need to reduce reliance on the hard-core sports customers.
- vi) To be fair to Ms Wilson, in response to Mr Bloch's suggestion that GNC wanted to get away from the image that Mr Hennion was referring to, Ms Wilson responded in this way:

"I think it is re-aligning with the original message that, with our original message. I think with any company you sometimes deviate with different management teams, and I

think it is about getting back to the core business. That is how I have interpreted it.”

And in response to Mr Bloch’s question “It is historical. Is it that different management, at different, times, have taken different views on these things?”, she agreed.

- vii) These answers, it seems to me, only go to reinforce my conclusion that the image of the GNC business by at latest 2014 the time when Ms Wilson re-joined GNC was as described by Mr Hennion. Although I do not suggest that GNC was not a retailer of a wide range of health products, a significant part of its image was perceived to be in the area of sports nutrition.
- viii) Mr Bloch’s questioning then moved to Ms Wilson’s evidence in her witness statement about the position in 2003 where she said that GNC (in the UK) was a general health and wellness brand and its message was directed to a wide range of consumers of all ages and levels of fitness. She made no mention of the historical stereotyping or old body builder image referred to by Mr Hennion in his speech. She gave an interesting answer to Mr Bloch’s suggestion that she should have mentioned these aspects to give a complete picture:

“I think sports nutrition, to my recollection, back then, its beginnings were in bodybuilding and then, over time, as that became, sports nutrition becomes more mainstream, and so therefore it morphs into a different version. So, it is true to say, that is where sports nutrition was born, if you like, with bodybuilding”

- ix) Ms Wilson then accepted Mr Bloch’s suggestion that the meaning of sports nutrition has changed over the years and now has a much broader meaning than many years ago. And she agreed with Mr Bloch that that is why “one can, as we have seen in the advertisements in the GNC US campaign, use “sports nutrition” and “wellness” together”.
- x) Ms Wilson accepted that GNC in the US was a market leader in sports nutrition in 2003. She also accepted that the GNC UK business was one of the first retailers in the UK to carry a comprehensive Sports Nutrition product offering, (something which Mr Craddock categorised as its “unique selling point” or “USP”).
- xi) As regards the development of the GNC UK business after the acquisition by H&B, Ms Wilson’s actual knowledge was very limited:
  - a) She left the GNC UK business three months after the 2003 acquisition, citing the ‘very different ethos’ of H&B as her reason.
  - b) She explained that she had visited ‘just a few’ of the GNC UK stores since 2003. There is nothing to suggest that her knowledge of what was sold in the stores, and in what proportions, went beyond what she had seen for herself in those specific stores.

- c) She could not speak for how successful GNC UK had been since 2003 because she had not been closely involved in their business.
  - d) It would appear that she had learned of the re-branding of the GNC UK stores as MET-Rx stores from a supplier. What she says is that she reported to her employers the rebranding of a store as a MET-Rx store when she had learned of it; it is implicit that if she had known about such rebranding generally before that instance, she would have reported that. I cannot imagine that she would not have said so to me if that had been the case.
- xii) Ms Wilson did not regard herself as qualified to comment on matters relating to local, in-country, advertising and promotion, or how the group sought to control its presentation by others.
  - xiii) Ms Wilson accepted, in relation to her store visits, that if she had seen anything in the way in which the GNC brand was being used in the GNC UK stores which caused her serious concern, she would have reported it. She could recall no occasion on which she had made such a report. I add that there is no other evidence of any such reports by anyone.
155. Ms Wilson's evidence is not without significance, coming from the only one of GNIC's witnesses with any experience of operating within the UK market.

#### **H&B's witnesses**

156. H&B called two witnesses, Roger Craddock and Emma Hobbs. A third witness who provided a witness statement is Emma Cockerill but she was unfortunately unable to attend to be cross-examined due to illness. As with GNIC's witnesses, I shall say a something about each of them at this stage.
157. **Roger Craddock.** Mr Craddock was the Group Legal Director and Company Secretary of H&B, a role he had held since H&B was incorporated in August 2002. He has been a practising solicitor since 1979. He retired as Group Legal Director and Company Secretary of H&B on 30th September 2016. Mr Bloch describes him as providing the court with an understanding of the UK market based upon years of relevant experience operating within that market. He also describes Mr Craddock as having given forceful and compelling evidence about the purpose of the activities of which GNIC now complains, that is to say to build upon and improve the GNC brand, rather than, as alleged, to damage it.
158. Mr Baldwin is critical of aspects of Mr Craddock's evidence. For instance, he says that Mr Craddock gave a deal of evidence on the subjective intention of the parties, evidence which is simply not admissible. He describes Mr Craddock as a generally defensive and unhelpful witness whose initial response to almost all propositions that were put was to deny them, or seek to divert the question. Let me set out a passage from Mr Baldwin's written closing submissions on this aspect:

“This was particularly apparent when dealing with the parts of Ms Cockerill's evidence that H&B had indicated Mr Craddock would adopt, and had indicated that he could speak to. So for

example when it was suggested that H&B had set about trimming away all of those products that were not sports-related, his response was to state that this was “complete rubbish”. It was only when it was pointed out that this was what Ms Cockerill’s evidence (in a passage he had indicated that he could speak to) was, that he was forced to try and claim that his denial had been because he thought the question was related to a slightly different period in time.”

159. With respect to Mr Baldwin, I have to say that I disagree with his assessment and with this example in particular. Mr Craddock was in fact perfectly correct to say what he did: Ms Cockerill states expressly in the relevant paragraph of her witness statement that “Over the years, we have condensed and rationalised the products sold in the stores to ensure that they are more closely aligned with sports nutrition”. She does not suggest that this was, or even could have been, done overnight. Mr Craddock’s answer of which Mr Baldwin is so critical occurred as part of a wider question and to take the answer by itself gives a misleading picture. Let me set out the most important part of a much longer relevant exchange:

“Q. Were you aware that after the purchase H&B set out to rationalise the product range of GNC?”

A. Yes. We removed, as I previously referred to, from the stock file the lines which we found on the recent stocktakes were effectively, there was no stock that actually existed, the stock had had to be destroyed because it was out-of-date, or it was so short dated or damaged that it did not exist, so that was removed from the stock file. We also removed or we put as future delete all of the really slow-moving lines, where there was absolutely no purpose in continuing with the business with them. In our view, the business was completely unmanageable with the scale of SKUs [stock keeping units] that it carried.

Q. What was happening was that in order to reflect H&B's desire to position GNC UK as a sports nutrition brand, it set about trimming away all of those products that were not sports-related; that is correct, is it not?

A. Complete rubbish.

Q. Can we look at what Ms. Cockerill says in paragraph 64? ..... "As explained in paragraphs 27 to 33 above, the position was exactly the same ... prior to the acquisition. A very wide range of SKUs were being sold in GNC stores when we acquired them in 2003. Over the years, we have condensed and rationalised the products sold in the stores to ensure that they are more closely aligned with sports nutrition. This has in no way damaged the GNC brand: it has enhanced it." Are you saying Ms. Cockerill is talking absolute rubbish?

A. No. This paragraph deals with over the years. The question you directed to me was in relation to what happened immediately following the 2003 acquisition.”

160. Although Mr Baldwin is critical of this answer, I consider that it is a perfectly fair answer given the context of the questioning. Mr Baldwin’s question was, it seems to me, reasonably understood as directed at what was done immediately after the acquisition. Shortly after that exchange, there was another exchange:

“Q. Is this what you are saying, as I understand it, you are now agreeing with Ms. Cockerill, but when you are saying that she says a wide range of SKUs were being sold, you have rationalised them so they are more closely aligned, are you saying the process was two-fold: first, you got rid of a whole lot of SKUs; and then you rationalised to make them more closely focused to sports nutrition?”

A. Yes, it was a two-stage process..... [Mr Craddock goes on to explain the first stage in some detail] .... There was then a process over a number of years, or has been a process over a number of years, where we have condensed and rationalised the stock file still further, because of the fact that the sports nutrition market has increased proportionally, or proportionate to the general health and well-being market; so, we have tended to focus on that market over the years since then....”

161. Mr Baldwin had difficulty with this explanation, suggesting that it did not make a great deal of sense. He suggested that the natural thing for H&B to have done would have been to trim down the items which were not sports nutrition related. Mr Baldwin’s suggestion that this would make sense received this response:

“Absolutely not; quite the opposite. In 2003, you could, there was not the market to sell just sports nutrition. GNC sold a range of products that specialised in sports nutrition. It was known as a sports nutrition retailer. That was its USP. Since then the sports nutrition market has grown and developed. There are more products and there are more consumers wanting to buy sports nutrition. So, effectively, you can sell either greater quantities of sports nutrition products and/or a wider range of sports nutrition products; so, you do not need to carry the slow-selling lines to actually attract the consumers any more...”

162. That answer makes perfectly good sense. I do not accept Mr Baldwin’s submission that H&B set about trimming away, as soon as the acquisition had taken place, all the products which were not sports-related.

163. Next, Mr Baldwin was critical of Mr Craddock’s suggestion that that there would be no rationale for buying a competitor unless the businesses were different, when in fact H&B has an aggressively acquisitive strategy of buying competitors. Unpacking that criticism into its two components, Mr Craddock’s witness statement did not say that



there would be no rationale for buying a competitor unless the businesses were different. Mr Craddock's evidence was that GNC UK, at the time of the acquisition, had a unique selling point (USP) focused on sports nutrition and weight management products and that that was what it was known for by its customers. Whether that evidence is right or wrong, it would appear that that was H&B's perception; and so Mr Craddock's evidence, which I accept on this point, is that this was the rationale for H&B buying the GNC UK business. What he then goes on to say is that without that USP it would not have sense for H&B "to purchase a chain of what would have simply been competing general health food stores, many of which were in the vicinity of or (in a few cases) even next door to an existing HOLLAND & BARRETT store". He did not, however, state as a general proposition that it would never make sense for a commercial enterprise to purchase a competitor or its business. Mr Baldwin's questioning revealed that Mr Craddock was not putting forward such a general proposition. Mr Craddock accepted that an acquisition could deliver operational synergies and that there could be advantage in buying a competitor just to close down its stores. But those, Mr Craddock says and I accept, were not the reasons why H&B acquired the GNC UK business. And I accept also that this particular acquisition would not have made sense at the price paid other than because the GNC stores were different from H&B's existing stores.

164. As to the second component of Mr Baldwin's submission, I do not consider that it has been established that H&B had an aggressively acquisitive strategy of buying competitors (with the result that there is no such strategy on which Mr Baldwin can rely to expose Mr Craddock's evidence of the first element as unreliable or unsustainable).
165. Mr Baldwin's next criticism is that Mr Craddock claimed in his witness statement and sought to support such a claim in his oral evidence that weight management was a sub-set of sports nutrition with the "extraordinary suggestion" that diet protein powder was a mass gainer product. In his witness statement, Mr Craddock did, indeed, state that "the sports nutrition category includes a variety of nutritional food supplements and weight management products; the sub-category of weight management refers to both diet and body building". He did not say, either in his witness statement or in cross-examination, that diet protein powder was a mass gainer product. What he did say was that, in his understanding, whey powder is to increase weight; but he accepted that the particular whey powder listed in the weight management section of H&B's website, taken instead of a normal diet, would be to lose weight. His evidence, in any case, was essentially focused on how H&B viewed the categories internally and that he was unable to comment from a consumer perspective. I am bound to say that I did find this part of Mr Craddock's evidence somewhat unsatisfactory. But it does not lead me to conclude that other aspects of his evidence must therefore be treated with particular caution let alone that they should be rejected.
166. The next criticism which Mr Baldwin makes of Mr Craddock's evidence relates to the amendments to drafts of what became the sponsorship agreement with the Club (as to which see in detail at paragraph 192 below). Mr Baldwin says that, in cross-examination, Mr Craddock refused to answer questions directly. Further, he draws attention to the fact that, in the part of Mr Craddock's witness statement where he addressed the drafting of the sponsorship agreement, he does not even mention the

fact that the Club proposed a change of wording to the draft of clause 4.2 which he had prepared or the fact that he rejected such a change because it was incompatible with the LA. I deal with this in more detail at paragraph 208ff below.

167. **Emma Hobbs.** Ms Hobbs is Group Head of Brand and Marketing of H&B. She joined H&B in 2000 in its merchandising team as a merchandising assistant where she was responsible for the placement of products in stores. In about 2001 she joined the marketing team as Marketing Assistant and in about 2003 moved into the role of Marketing Co-ordinator. In that role she was responsible for printed point of sale (“POS”) materials (*ie* producing print documents for promotions) and promotions of new stores for the H&B business. She left H&BI for a short period (July 2007 to December 2008) and returned to H&B in January 2009 as the Group Retail Marketing Manager. She remained in that role until the end of December 2012. From 2009 until December 2012 her role included marketing for GNC UK. In January 2013 she became H&B’s Group Brand Manager. In that role, she was responsible for the overall brand positioning and identity of the GNC brand, and as such remained involved with marketing and promotional activities under the GNC brand as and when necessary, for example when the sponsorship of the Tigers arose. In March 2016, she was promoted to her current role.
168. Mr Bloch describes her in the same way as he described Mr Craddock, that is to say as providing the court with an understanding of the UK market based upon years of relevant experience operating within that market. Similarly, he also describes her as having given forceful and compelling evidence about the purpose of the activities of which GNIC now complains similar to that of Mr Craddock.
169. **Emma Cockerill.** Ms Cockerill was unfortunately unable to attend for cross-examination having been taken ill. Mr Baldwin was therefore unable to explore with her a number of the matters which she covered. He made a number of observations in his written closing which I deal with in the following sub-paragraphs:
- i) Mr Baldwin considers that in many respects her evidence is helpful - she gave evidence that the sports nutrition products stocked by GNIC at the date of the Acquisition formed a small number of the listed SKUs (less than 10% - 495 out of a total of over 5000), figures which can be compared with those for H&B, which currently has around 17.5% sports nutrition products in its range, but is fairly and squarely a general health and wellness retailer.
  - ii) She also gave evidence that H&B had trimmed the product range of GNC products to “to ensure they are more closely aligned with sports nutrition”. That is true, but only over a period of years: see what I have already said about this when considering Mr Craddock’s evidence. Mr Baldwin submits that, although she maintained the H&B line that in 2003 GNC was a “sports nutrition specialist”, it is fair to infer that this claim would have gone the way of H&B’s other witnesses’ similar claims. By that, Mr Baldwin means that the suggestion that GNC was indeed a sports nutrition specialist is wrong. I do not consider that it is fair to make that inference. Had she been cross-examined, her evidence may have stood up and, if it had done so, it would have supported the evidence in chief of Mr Craddock and Ms Hobbs. It is right, however, that I treat her evidence on this point with considerable caution.

- iii) Mr Baldwin suggests that there is one paragraph of Ms Cockerill's evidence which is on its face potentially misleading. He suggests that that paragraph appears to seek to give the impression that half the floor space of a typical store was taken up with sports nutrition adding that such was the exact proposition that was repeated by Mr Craddock a number of times in his evidence. What the paragraph says is that half the floor space was taken up with "products in the Sports Nutrition and VHMS categories with the other half being taken up with products in the Food and Personal Care categories". I think that the paragraph is clear: it cannot sensibly be read as meaning that half the floor space is taken up with sports nutrition products on their own. I do not see it as potentially misleading and needing a careful reading to correct an incorrect impression as Mr Baldwin fears.
- iv) I should add in relation to this last point that Mr Craddock, in giving his evidence about the floor space taken up by sports nutrition products, was relying on his own impression and expressly disavowed reliance on Ms Cockerill's evidence. He supported his view by reference to photographs in the bundle.

### Absence of evidence

170. Mr Bloch draws attention to the absence of evidence from a number of people from whom one might, according to him, have expected to hear. He invites me to draw adverse inferences from the silence or absence of a witness who might be expected to have material evidence to give on an issue in an action. In this context, he refers to the principles set out in *Wisniewski v. Central Manchester Health Authority* [1998] PIQR 324 at p340 *per* Brooke LJ:

"(1) In certain circumstances a court may be entitled to draw adverse inferences from the absence or silence of a witness who might be expected to have material evidence to give on an issue in an action.

(2) If a court is willing to draw such inferences, they may go to strengthen the evidence adduced on that issue by the other party or to weaken the evidence, if any, adduced by the party who might reasonably have been expected to call the witness.

(3) There must, however, have been some evidence, however weak, adduced by the former on the matter in question before the court is entitled to draw the desired inference: in other words, there must be a case to answer on that issue.

(4) If the reason for the witness's absence or silence satisfies the court, then no such adverse inference may be drawn. If, on the other hand, there is some credible explanation given, even if it is not wholly satisfactory, the potentially detrimental effect of his/her absence or silence may be reduced or nullified."

171. The first absent potential witness is **Margaret Peet**. I consider that the following are established or are common ground:

- i) Ms Peet's family founded what became the GNC UK business. She had an intimate knowledge of that business, as its managing director, at the time of its acquisition by GNC US, and thereafter until its acquisition by H&B in 2003.
- ii) Ms Peet was later involved in the discussions within the GNC Group of the possible reacquisition of the GNC UK business in 2013 and 2014, having been retained by the GNC Group as EMEA Business Development Consultant, based in the UK.
- iii) The email exchanges in 2013 reveal that she had been monitoring the GNC UK business and thought that the GNC Group should consider buying it back.
- iv) None of GNIC's witnesses could identify any reason why Ms Peet could not appear to give evidence before the Court.
- v) Mr Baldwin rejects any criticism on this score. The real point, he says in respect of which any issue might arise on which Ms Peet's evidence might be helpful was the state of the GNC UK business prior to the LA in 2003. Mr Baldwin submits that GNIC in fact called the witness best placed to assist the court on that issue, namely Ms Wilson. But as I have already observed, Ms Wilson did not regard herself as qualified to comment on matters relating to local in-country advertising and promotion, or how the group sought to control its presentation by others. Ms Peet might have been able to do so.
- vi) I have enough evidence from the witnesses on each side and from the contemporaneous websites and photographs to form an assessment about whether or not GNC UK was a general health and wellness brand. What is more difficult is to assess, assuming that it was such a brand, is whether its USP was nonetheless sports nutrition (there being no inconsistency between being a general health and wellness brand and having a sports nutrition USP). Since Ms Wilson could not comment in relation to advertising and promotion and since she said nothing about whether GNC UK's USP was sports nutrition, evidence from Ms Peet might have been helpful.
- vii) Whilst not agreeing that Ms Wilson was GNIC's most suitable witness, Mr Bloch does not accept that, even if she was, it is an answer to his point. Ms Peet is, he says, the witness who was best positioned to describe the impact of the breaches. She is the person who had the ear of top management. She is the person we see Mr. Cupples defer to in relation to certain issues. She is the person who was interested in the acquisition of the business. She was formally a consultant, but plainly, Mr Bloch submits, an intimate part of the GNIC or GNC US team and the person on the ground in the UK: she is a material witness but she has not been called.
- viii) Whilst on this topic, but not directly related to Ms Peet, he notes that it was Mr Green – a person no longer employed by GNC – who has given evidence about (to use the words in his witness statement) “the breaches which, from my knowledge and experience of GNC's franchising operations, would be of the greatest assistance to GNC”. Mr Bloch's point is that one might expect such evidence to come from someone within the claimant or GNC UK more widely who could speak to what GNIC actually considers would be “of the

greatest assistance to GNC” whatever that phrase may mean. Mr Bloch’s submission is that GNIC had to use Mr Green because they have not called the people on the branding side who could speak to that.

172. The second absent potential witness is **Jeff Hennion**. I have already mentioned him: see paragraph 154 above. It might be thought that, as the Chief Marketing and e-Commerce Officer at GNC Holdings Inc (a role which he still holds), he would have been a position to give authoritative evidence on the nature of the GNC brand as it is today. Mr Bloch suggests that the reason he was not called was because of what he said in the speech which I have related at paragraph 154 i) above. Mr Hennion’s evidence would, according to Mr Bloch, have directly contradicted the case which GNIC seeks to advance in these proceedings. I have already considered what Mr Hennion actually said when considering Ms Wilson’s evidence (see paragraph 154 iii) and iv) above).
173. Mr Baldwin’s response to the criticism that Mr Hennion did not give evidence is that Mr Green was able to give authoritative evidence based on many years of experience and has current involvement as franchisee of a number of GNC franchises in the US. Quite apart from that, Mr Baldwin relies on a number of items of documentary evidence to support the case that GNC worldwide is a general health and wellness brand rather than anything else.
174. In my judgment, Mr Bloch fails to establish that the reason for not calling Mr Hennion was that his evidence would contradict GNIC’s case about the nature of its business. Whether Mr Hennion, under cross-examination, might have accepted that the USP in the UK at the time of the acquisition was as a sports nutrition brand is a different matter. But even if he had done, that would not have been inconsistent with either (i) what Mr Hennion is reported as saying in his speech or (ii) the GNC brand globally being a general wellness brand. As to the second of those, the fact, if it is a fact, that the GNC brand globally is a general wellness brand is not inconsistent with its USP in the UK being sports nutrition at the time of the acquisition or with its having the historical image, in 2016 when Mr Hennion gave his speech, described by him.
175. The third absent potential witnesses fall into the category of those from marketing, promotion or brand image management within the GNC Group; no witness was called from that category of persons. Mr Bloch complains that, instead, GNIC relies on Mr Green (whose evidence I have already commented on to some extent) to give evidence of what he considers such individuals would think of the uses of the Trade Marks complained of. The knowledge and experience of the other witnesses were in different fields; Mr O’Connor is a lawyer, Mr Cupples is a finance man and Ms Wilson is a business development manager. According to Mr Bloch, it is to be inferred that the appropriately qualified individuals have not themselves been called because they would agree with Mr Hennion.
176. Mr Baldwin’s submission is simply that evidence of that kind is not necessary, bearing in mind the witness evidence and the exhibits that have been put in. He relies on the evidence about the range of profiles about which Ms Wilson gave evidence which was unchallenged – from Fitness Finn to Preventative Petra to the Millennials. I accept that that goes a long way to meeting Mr Bloch’s complaint so far as it goes to evidence concerning the nature of the GNC business. But it does not assist Mr

Baldwin so far as it goes to evidence concerning the materiality of any alleged breach of the LA. Be that as it may I do not consider that Mr Bloch has established that the reason for not adducing evidence from any person within this category is because they would have agreed with Mr Bloch's characterisation of Mr Hennion's speech.

177. Next, Mr Bloch complains about the absence of third party witnesses from whom, he says, one would expect there to have been evidence. Thus, GNIC has failed to call any witnesses from amongst the franchisees of the GNC Group, or amongst the public, to give any evidence at all of any actual confusion or detriment to the GNC brand said to flow from the breaches alleged. GNIC has adduced no survey evidence and no evidence of consumer reaction and no market studies. He refers to Kerly's Law of Trade Marks and Trade Names, 15th Edition, at 21-018 to 21-023 as a commentary on the common nature and uses of such evidence.
178. Mr Bloch submits that it was for GNIC to adduce such evidence, as part of proving its case, but it has not done so. Nor has it sought leave to adduce any expert evidence. Instead, he says that it advances its case on the basis of bare assertion and inadmissible, unqualified and partial opinion contained in the statements of its witnesses of fact. There is furthermore nothing from the business side of the GNC Group by way of internal analysis, internal reporting, or internal complaint records, which evaluates the impact on the GNC brand, if any, as a consequence of any of the matters complained of. As Mr O'Connor stated in evidence, the GNC Group did not consider or rely, when serving the First to Fifth Notices and bringing these proceedings, upon any such material.
179. So far as survey evidence is concerned, I do not consider that GNIC is to be criticised for not seeking to adduce such evidence. The Court in modern times has, as Mr Baldwin submits, been astute to control, and limit, the use of survey evidence, questioning whether such evidence is ordinarily helpful in trade mark cases: see the decision of the Court of Appeal in *Interflora Inc v Marks and Spencer plc* [2012] EWCA Civ 1501, [2013] FSR 21. At [144] of his judgment, Lewison LJ said this:

"144. The current practice, which Arnold J. understandably followed, is to allow the evidence in unless the judge can be satisfied that it will be valueless. In my judgment that is the wrong way round. I consider that, even if the evidence is technically admissible, the judge should not let it in unless (a) satisfied that it would be valuable and (b) that the likely utility of the evidence justifies the costs involved."

180. This approach was confirmed when the case came before the Court of Appeal again: see [2013] EWCA Civ 319, [2013] F.S.R. 26, where the Court (again including Lewison LJ) affirmed that evidence of this kind should only be admitted if it was of real value; and even then only if the value justified the cost; and that judges should be robust gatekeepers in that respect. However, as Sir Robin Jacob added at [33]:

"This decision does not mean that the days of survey evidence are over. It is possible to conduct fair surveys and they may indeed lead to witnesses of value. And that may turn a case — some of the Jif lemon witnesses were of that character. But if the survey amounts to no more than scratching around for

something and produces so little as this one has, then there is every good reason in common sense and procedural economy for excluding it along with any resultant witnesses.”

181. In cases where a party wishes to adduce survey evidence, he must obtain an order permitting him to do so. The Court cannot act in the absence of any material (unless, I suppose, the application is unopposed; there can then be no objection, as Lewison LJ said in the first *Interflora* decision to the carrying out of a true pilot survey, at the risk as to costs of the party carrying it out, before applying for permission to adduce the results of a survey).
182. In the present case, I very much doubt that a pilot survey would have indicated any evidence which, following a full survey, would have been of real assistance to the Court and I have no material on which to form a view that a survey could have been conducted at proportionate cost. It is, in any case, difficult to see what evidence a survey could sensibly have sought to obtain. It is wholly unrealistic to think that it could have assisted with the general perception in the UK of the GNC business in 2003; and by 2013, it is common ground that the business, within the H&B group, was indeed a sports nutrition business. It is even more difficult to see how survey evidence could assist in the determination of the issue whether the use of the words “Sports Nutrition” in conjunction with “GNC” was a material breach of the LA.

### **The alleged breaches**

183. As I noted at the beginning of the section above headed “The Substantive case – introductory remarks”, Mr Baldwin restricts his argument to a small number of alleged breaches. Some complaints have no merit, in my view. One example is the use of GNC in relation to the sale of food products. Another is the use of the GNC mark together with “UK”. The evidence shows that the GNC group, prior to the acquisition, was itself happy to adopt that practice. Indeed, a report commissioned by GNC from Rothschild itself refers to the UK business as “GNC (UK)”. At worst from H&B’s perspective, the use of “GNC UK” was a formal, but in my view clearly immaterial, breach of the provision prohibiting alpha, numeric or graphic additions to the GNC mark which GNIC could have prevented – but I can see no point in its having sought to do other than in order to cause difficulty to H&B for its own commercial purposes.
184. Mr Baldwin is of course entitled – indeed it is a sensible course which I am grateful he took – not to pursue all the complaints made in the Notices. It is surprising, however, that he did not pursue at all the complaints that H&B had claimed ownership of the GNC brand, listed in paragraph 90 of GNIC’s written opening as among “the most egregious breaches” and listed in the First Notice at pages 5 and 6. Mr Bloch says that GNIC made no mention of these breaches in oral opening and asked no questions in relation to them. I have no note of their being mentioned and, so far as I have been able to discover through reading the transcripts, they were not mentioned (although I may have missed something). Mr Bloch’s contention appears to me to be correct. I have some sympathy with Mr Bloch when he says that he effectively dismantled (to use his word) each of the relevant allegations in his own opening, but since Mr Baldwin did not pursue the complaints, it is not appropriate for me to make any decision about that.

185. Similarly, in paragraph 105 of GNIC's written opening, it was alleged that H&B had breached the LA by using the GNC marks on other products which fall outside the scope of the LA, for example magazines (and in particular the designation of its "Health for Men" Magazine as "The GNC Magazine"), clothing and shaker bottles. Again, these were not mentioned in Mr Baldwin's oral opening, no questions were asked of H&B's witnesses about these aspects of the claim and their own evidence on such use was not challenged.
186. I do not propose to say anything more about the complaints which have not been pursued.
187. Turning now to the complaints which are pursued they are, to recap, the use of an alleged alpha addition to the licensed GNC mark of "SPORTS NUTRITION", and the sub-licencing of certain marks to the Club, including the resultant overseas promotion of the GNC mark (which included promotion of the mark GNC SPORTS NUTRITION). Part of the complaint concerning sub-licensing relates to the manufacture and sale of replica kit and T-shirts bearing the GNC mark.
188. Of central concern are broadcasts of matches at the Welford Road stadium to overseas television audiences by local broadcasters. The broadcasts contained, of course, images of the pitch and the stadium before, during and after matches and thus broadcast images of the sponsorship boards and banners promoting H&B's GNC brand. The complaint relates to the use of the GNC mark together with the words "SPORTS NUTRITION".
189. There had been a separate complaint about the use of the mark with the addition of those words on replica kit and T-shirts. However, Ms Wilson acknowledged that such kit is part of the marketing and promotion of the brand as is shown by her answers at the end of a short exchange:
- "Q. The branded T-shirt serves a marketing or promotional purpose, does it not?
- A. Yes, that is correct.
- Q. The person who see it in the street will not know whether the particular shirt that is being worn was sold to the wearer or given away to him, will they?
- A. No.
- Q. It performs the same marketing or promotional function in both cases, does it not?
- A. Yes it does."
190. Accordingly, Mr Bloch submits that no separate issue falls to be dealt with in relation to kit. Mr Baldwin does not accept that as an answer to the complaint. The fact is that the relevant kit has been manufactured and sold. It has been manufactured by a company called Canterbury Clothing Ltd and sold in, among other places, the Club's merchandising shop and online store run by another company called Kitbag Ltd



through the Club's website. His principal point is the use of "GNC SPORTS NUTRITION" on T-shirts is as objectionable as its use on the boards around the stadium. That point is all the stronger in the circumstances of the actual marketing. Mr Baldwin's case appears from the following exchange with me at the end of his closing submissions:

"MR. JUSTICE WARREN: ..... There seemed to be a complaint which involves Kit Bag and Canterbury because they were manufacturing and distributing and were charging for it. You see these things for sale on the website. They were being sold in the club shop, presumably to make some money.

MR. BALDWIN: Yes.

MR. JUSTICE WARREN: Is there a distinction, do you rely on that over and above, would it be different if they had been free?

MR. BALDWIN: No.

MR. JUSTICE WARREN: The same point?

MR. BALDWIN: Yes.

MR. JUSTICE WARREN: Okay.

MR. BALDWIN: The fact that they were charging, Ms. Hobbs made the point, that Holland & Barrett were not getting anything out of it; which they were not. We have the same point if they are free, but it is significant that they are not free, because some third party sub-licensee of Holland & Barrett is making money out of it. The case is *a fortiori* because they are goods out of which somebody is making a profit. I can make all the same points if they were giving them away, but if they are giving them away, it is more clearly just promotional stuff; but if they have a business in them, we are in a much stronger position, because it is clearly sub-licensing, somebody is making a profit, it is not us, and you have damage.

When it comes to the reasonableness of that being stopped, and the steps that they took, what is significant, they made no effort to stop Canterbury or its distributors stopping this. That is why they are still available for sale today. What they did is they bought up Kit Bag stock and with Kit Bag, the evidence is that they got Kit Bag to agree not to get any more, but they did not do the same with Canterbury and they did not enquire of Canterbury of the distributions Canterbury had made to their distributors or to other people."

191. Mr Baldwin also relies on the use of the GNC Sports Nutrition wording which appeared on social media. The extent of that use is, however, entirely unclear.

GNIC's main complaints, however, are in relation to the specific uses identified in the immediately preceding paragraphs of this judgment. I do not consider that, if GNIC fails in relation to those, it could succeed in relation to the social media exposure; and if it succeeds on those, it does not need to rely on the social media exposure. I therefore give it no further consideration.

### **The Sponsorship Agreement**

192. To understand GNIC's complaints, I need to refer to the terms of the agreement made between H&B and the Club on 15 August 2013 ("**the Sponsorship Agreement**"). Under this agreement, H&B paid the Club £150,000 for the sponsorship rights set out in Schedule 2 and in the appendix to a supplemental letter of the same date ("**the Appendix**").
193. Ms Hobbs gave evidence about the sponsorship arrangement. I accept her evidence much of which was not challenged.
194. She explained that the main purpose of the Sponsorship Agreement was "to promote the GNC brand through the connection with [H&B's] local rugby team". But as Mr Craddock accepted, one of the reasons why H&B chose to sponsor the Tigers was because it was well-known throughout the UK, or at least England.
195. The Sponsorship Agreement was but one of what Ms Hobbs described as "the entirely conventional activities (from a marketing point of view)" carried out by H&B. Mr Baldwin submitted that Ms Hobbs was saying that such promotion was conventional for a brand-owner but not saying that it was conventional for a licensee. The question he asked Ms Hobbs was this:

"When you are referring to "entirely conventional marketing activities", by that, am I right in thinking that you mean these are the sort of activities you might well do with the Holland & Barrett brand?"

Ms Hobbs answered "Yes". I do not consider that Mr Baldwin can take this response as an acceptance by Ms Hobbs that what she said in her witness statement (these were "entirely conventional activities") can be taken as being restricted to activities by a brand-owner. If Mr Baldwin had gone on to ask whether Ms Hobbs regarded it as conventional for a licensee to carry out such activities, she might have disagreed, she might have agreed or she might have said that her experience did not qualify her to give an answer. The answer she would actually have given would have clarified what it was that she was saying in her witness statement; none of those answers would have been inconsistent with the witness statement but would have been clarificatory of it. I do not consider that Mr Baldwin can take from Ms Hobbs' response that she would have regarded this sort of promotional activity as unconventional for a licensee. In my view, she is to be taken as saying, in her witness statement, that these were entirely conventional activities for anyone marketing the relevant goods. If Mr Baldwin wished to suggest, as he now does, that she was saying nothing about such activities on the part of a licensee, he should have put the point to her. He did not do so, so I take the position to be that these promotional activities were the sort of activity which it would be entirely conventional for GNC to undertake. Of course, it must do so in accordance with the terms of its licence. But the point here is that the

scope of the licence may be assessed in the light of what is and what is not conventional.

196. Moving on from that point, it is common ground that certain matches taking place at Welford Road were the subject of television broadcasts, including Aviva Premiership matches and Heineken Cup matches. Matches in both categories were televised in many overseas countries. The sponsorship rights acquired by H&B included the right to have the GNC mark placed upon secondary perimeter boards around the stadium and to have exclusive naming rights to the North Stand, which was to be known as the “GNC Stand”.
197. For Heineken Cup matches, the secondary perimeter boards bearing the GNC SPORTS NUTRITION signage were covered up in accordance with the current Rugby Laws. These laws were defined in clause 1.1 of the Sponsorship Agreement and included the rules, regulations, guides and/or promotional, marketing and commercial agreements and arrangements applicable to the Club issued by a number of governing bodies of the sport. However other signage, such as that at either end of the North Stand and at mid-stand was not and was plainly visible; some of that signage included the words “SPORTS NUTRITION”. For the Aviva Premiership matches, all the GNC SPORTS NUTRITION branding was visible to the TV cameras.
198. I was shown pictures of the resulting branding which were contained in the trial bundle. The branding included use of the GNC mark together with the words “SPORTS NUTRITION” and use of the domain name [www.gnc.co.uk](http://www.gnc.co.uk). Across the top of the North Stand were the words “Official Sponsors of the Leicester Tigers” with [www.gnc.co.uk](http://www.gnc.co.uk) either side of those words; the words “Sports Nutrition” do not appear. At the end of the North Stand, oriented so as to be visible to the spectators in that stand were boards with “GNC SPORTS NUTRITION” in large letters above [WWW.GNC.CO.UK](http://WWW.GNC.CO.UK) in even larger letters.
199. Clause 4.1 of the Sponsorship Agreement granted the following rights to the Club (subject to clause 4.2), namely a grant to the Club and its group companies for the Term (that is to say until 15 June 2015) of “a royalty-free non-exclusive license to use and grant rights of use to use the Sponsor’s Mark” for the purpose then set out. The Sponsor’s Mark was defined in clause 1.1 as meaning any of the trade names or trademarks or logos set out in paragraph 2 of Schedule 1; relevantly, these included the GNC mark, as well as the Holland and Barrett mark. The purposes set out were these:
  - i) The implementation and delivery of the Sponsorship Rights, that is to say the rights set out in Schedule 2.2.
  - ii) Inclusion in the Club’s non-commercial presentations (the Annual Report and Club and Club-related literature).
  - iii) Use in relation to the Club’s licensing programme for Club-related products, including the right to use the Sponsor’s Mark in and on such products and/or at the Ground.
200. That license was subject to clause 4.2 which provided for H&B to indemnify the Club against claims arising out of or in connection with any third-party claims arising out

of or in respect of any of the Sponsor Brands where used pursuant to the Sponsorship Agreement itself. Sponsor Brands included Holland and Barrett and GNC.

201. Whilst H&B did not contract for any broadcasts under the Sponsorship Agreement, it was aware that the GNC brand would gain TV exposure as a result of the coverage of those matches. Ms Hobbs says that this was not the main benefit of the sponsorship arrangements. The most important benefits perceived by H&B were the obtaining of the right to use player quotes and Club imagery to promote the product categories sold by GNC UK which can be seen from what she said in paragraph 35 of her first witness statement:

“The package of sponsorship benefits under negotiation also included sponsorship rights for the team’s non-match day training kit under the GNC mark, two pages of advertising in each match programme (one of which we intended for GNC and one for HOLLAND & BARRETT), some very limited GNC signage on the East Stand, corporate entertainment, the opportunity to supply GNC-branded VHMS product to the team (amongst other products) and, most importantly, the right to use player quotes and Club imagery to promote the product-categories sold by GNC UK.”

202. This was referring to the position in the period before the North Stand sponsorship was suggested by the Club. This opportunity arose because of the withdrawal of another sponsor at a late stage in the Club’s negotiations with H&B; it was seen by H&B as a good promotional opportunity to increase further brand awareness of the GNC brand amongst Tigers fans at a good price. Mr Baldwin contends that television coverage of the matches, and thus broadcast of images of the boards which I have mentioned, was a significant benefit. He relies on the “media value” which I refer to below. I agree with his assessment that the GNC SPORTS NUTRITION banner was prominently displayed around the Club ground; and I agree that this included locations which were said by the Club to be prime broadcasting locations. Whilst I agree that such coverage was attractive to H&B, I also accept Ms Hobbs’ evidence that this was not perceived as the main benefit and that the substantial benefits were as she describes.
203. There is no available evidence about how many people watched the television broadcasts. There is no evidence about whether any of those who did watch them were people living outside of the UK. Mr Bloch also observes that there is no evidence about how many of those people noticed or appreciated the GNC branding at the stadium or evidence about what reaction, if any, such people had to the branding. As to those observations, it seems to me to be simply another way of putting the criticism, which I have rejected, that GNIC did not adduce any survey evidence. Insofar as the observations are intended as a criticism, I reject such criticism.
204. There was evidence about certain “media values” asserted by the Club in the course of negotiations. It is relied on by GNIC in support of its contention that television exposure was a significant (to H&B) part of the sponsorship deal. It includes, in particular, an email from the Club to H&B dated 10 July 2013 and a three-page report by a company called Repucom, again sent to H&B by the Club. The email states that the end of season broadcast hours had increased to 14,400 hours, with the top markets

being UK (52%), South Africa, France, Canada and USA. Media values were asserted of £268,622 globally and £72,380 for UK and Ireland. The Repucom report shows QI Media Value of £578,779 for the 2013-14 season, with the Static Board 2<sup>nd</sup> Row being the top performing locations, accounting for 50% of the total.

205. Ms Hobbs' clear evidence, which I accept on this point, was that H&B did not regard the asserted media values as accurate. In her words, H&B took those figures with 'a huge pinch of salt'. It is not hard to see why this was so. The basis for those figures is entirely unexplained. They are significantly higher than the total sum paid under the Sponsorship Agreement. Further, the Repucom report is, if evidence at all, expert evidence for which there is no permission. However, to the extent that she and Mr Craddock were suggesting (if they were) that there was no media value whatsoever, I would reject such a suggestion. I do not think that that is what either of them was really saying.
206. It was also Ms Hobbs' repeated evidence, which again I accept, that had H&B believed the media values asserted by the Club were anything like correct, H&B would have utilised the exposure available by deploying its flagship brand, Holland & Barrett, rather than its GNC UK brand, in order to maximise the value from such exposure. H&B did not do so.
207. The Club itself granted merchandise rights in relation to GNC SPORTS NUTRITION branded clothing to a company called Kitbag. The garments were made by a company called Canterbury Clothing Ltd and Ms Hobbs provided that company with the GNC SPORTS NUTRITION logo for its use. It sold quantities of the GNC SPORTS NUTRITION branded kit to its distributors. Items of this kit are still available for sale although it is not suggested that items are still being, or have been recently, manufactured.
208. Mr Baldwin next contends that, prior to entering into the Sponsorship Agreement, H&B knew that the LA precluded it from promoting the GNC trade marks overseas. It might be said that it is not necessary to go further than to point to clause 2.7 of the LA. But to emphasise the point, and to strengthen his arguments in relation to the alleged materiality of the breach, Mr Baldwin relies on the way in which the drafting of what became clause 4.2 of the Sponsorship Agreement progressed. According to him:
- i) First, H&B put forward a clause restricting the Club's right to use of the GNC marks in the UK only. I add that the Club's original draft had included a worldwide licence of all the marks licensed, which included H&B's own trade mark "Holland & Barrett" in stylised form.
  - ii) The Club countered with an addition to the clause which had been proposed by H&B. That addition was an exception from the UK-only restriction, namely that H&B  
  
"acknowledges that the Club may use the 'GNC' Sponsor Mark in the delivery of rights under this Agreement and such use may mean that such 'GNC' Sponsor Mark appears outside the United Kingdom."

Examples of that exception are given. For instance, the Mark may appear on the Club's non-match training kit worn by players for fixtures outside the UK, in images featuring the kit and broadcasts featuring perimeter hoardings.

- iii) H&B's position was that it could not accept this proposed wording. Mr Craddock's manuscript note on the draft reads "We cannot agree to this"; and the Club's solicitor, reporting to his client, records that Mr Craddock "is not comfortable committing to any contractual wording that potentially places [H&B in breach of [the LA]]". I add that the solicitor went on to say that Mr Craddock recognised the Club's need to use the GNC brand to deliver the sponsorship rights (including outside the UK where relevant) and was happy to provide an indemnity. I will come to what Mr Craddock had to say about this in a moment.
  - iv) Mr Baldwin states that H&B agreed to revert to the Club's original clause 4.1 and it deleted its proposed clause restricting the Club's rights to the UK.
  - v) That is not quite right. Indeed, as he acknowledges, by way of a footnote to his written submission, the words "world-wide" were removed. The excision of those words was more than cosmetic. Although as a matter of construction the licence might be construed as world-wide, the actual intended use outside the UK was not world-wide and was incidental.
209. Mr Baldwin concludes from the course of the drafting of the licence that H&B knew perfectly well that it was not entitled to permit promotion of the GNC mark outside the UK. Accordingly, it tried to limit the Club's licence to use of the GNC marks within the UK. But this limitation was not acceptable to the Club as it knew that there would be overseas use and that, in the light of this, H&B decided to go ahead with the Sponsorship regardless, and satisfy the concerns of the Club by the provision of an indemnity.
210. Mr Craddock addressed the drafting of the Sponsorship Agreement at some length in his first witness statement. In summary, he said this:
- i) Although the Club's proposed wording of clause 4 referred to a worldwide licence, he was comfortable that use by the Club outside the UK (if any) would in reality be absolutely minimal. As he saw matters (and I have no doubt that he did see matters this way) the Sponsorship Rights provided by the Club were locally-focused in Leicester. It also seemed to him (a perception with which I agree) to be very unlikely that the Club's Annual Report and Club-related corporate literature (that is to say, the matters referred to in clause 4.1.2) would have a widespread distribution.
  - ii) As regards the Club's licensing programme for Club-related products (referred to in clause 4.1.3) he understood this to refer to any items which listed all of the official sponsors of the Club, such as the match programmes and promotional boards deployed at the Club's ground on match days. Given the Club's local supporter base, it seemed to him to be very unlikely that this would involve use of the GNC mark outside the UK. I accept that those were his understandings and perceptions.

- iii) Out of an abundance of caution, he proposed inserting an express provision limiting the Club's right to use the GNC mark to the UK, reflecting the extent of GNC UK's rights under the LA.
- iv) The Club was uncomfortable about the change that he had proposed to its clause 4 wording (which was a standard term in its sponsorship agreements), expressly limiting the Club's right to use the GNC mark in the UK. The Club had concerns with this limitation in light of three specific situations in which the Club considered that there was a risk that the GNC mark might appear outside the UK.
- v) These situations were as follows: images of the team in non-match day training kit or in broadcasts of matches in which shots of the perimeter hoardings around the pitch were included; on the Club's non-match day training kit worn by players outside the UK; and in the Club's delivery of online and new media rights. In light of these concerns, the Club wanted to revert to its standard wording in clause 4.
- vi) Mr Craddock took the view that this type of exposure of the GNC mark outside the UK did not amount to "use" in any real sense (that is to say within the meaning of the Licence Agreement). Moreover, he considered any such exposure would in reality be absolutely minimal and so would not on any sensible basis amount to a breach of the LA (let alone a material one).
- vii) As regards television broadcasts, the appendix to the supplemental letter (making further provision about the sponsorship arrangements concerning the GNC mark) made clear that the sponsorship rights only extended to use of the GNC mark on the reverse side (that is to say, the crowd-facing side, not the pitch-facing side) of the primary perimeter boards and on the secondary perimeter hoardings on the front of the North Stand (that is to say, behind the A-frame primary perimeter boards).
- viii) Moreover, these secondary perimeter hoardings would be covered up for Heineken Cup Matches. So far as he knew, it was the only international competition in which the Club participated. He believed all other televised games at Welford Road were in the domestic league or cup competitions. I accept his evidence about his understanding. Unfortunately for him, or rather for H&B, the Heineken Cup was not the only international competition in which the Club participated.
- ix) He did not, therefore, perceive a problem in practice. He did, nonetheless, explain to the Club that H&B could not grant a worldwide licence, in light of the terms of the LA. In discussions with the Club's lawyers, some compromise wording was agreed. The word "worldwide" was deliberately omitted from clause 4.1, with the scope of the licence being limited to the three identified purposes in sub-paragraphs 4.1.1 to 4.1.3. The indemnity was also included. Mr Craddock states that this addressed the Club's concerns. It also addressed GNC UK's concerns as he considered that those purposes "would not in practice result in use of the GNC mark outside the UK, or only absolutely minimal use".

- x) It is important to bear in mind that the Defendants have no conceivable commercial interest in advertising or promoting the GNC mark outside the UK. H&DC makes no sales under the GNC mark outside the UK. All its stores are in the UK and GNC UK's e-commerce website at [www.gnc.co.uk](http://www.gnc.co.uk) does not accept orders from outside the UK.
211. Mr Baldwin contends that this evidence does not meet the points now made against H&B:
- i) First of all, Mr Craddock's evidence was that the secondary perimeter hoardings were covered up during Heineken cup matches, being the only matches which might reach an overseas audience. This fails to take account of the fact that Aviva premiership matches, where the secondary perimeter boards were available for all to see, were broadcast abroad too. Even if Mr Craddock were not aware of this fact, the Club certainly would have been. It is these boards which the Club considered to be the most valuable in the context of TV exposure, and so it cannot be suggested that the Club would have considered such exposure minimal.
  - ii) Secondly, it is evident from screen shots of the various matches that use of the sign GNC SPORTS NUTRITION at the ground was far more extensive than Mr Craddock believed.
  - iii) Thirdly, the fact that Mr Craddock was apparently unaware of the fact that Aviva Premiership matches are broadcast all over the world mean that although he purported to give evidence about how minimal was the exposure of GNC SPORTS NUTRITION branding overseas, he was giving that evidence in ignorance of the true facts about broadcasting overseas.
  - iv) Fourthly, it is clear that Mr Craddock made no or minimum efforts to establish the facts about overseas use prior to abandoning his requirement for a limitation to the UK of the Club's rights and its substitution with an indemnity.
  - v) What Mr Baldwin invites me to conclude from all of this is that the only credible explanation of the deletion of the word "worldwide" from the licence grant in clause 4.1 is that H&B did not want the contractual wording to show a breach of the LA.
212. Mr Baldwin is also highly critical of parts of Mr Craddock's oral evidence, in particular the suggestion that the licence granted by the Sponsorship Agreement was not in fact worldwide. In that context, he points out that "Territory" as defined means the world. He submits that Mr Craddock's position makes no sense at all. That position entails that the Club was sufficiently worried about use outside the UK to seek the indemnity but not worried that it was going to be in breach of the very agreement that it was entering into with H&B.
213. I do not think that this is fair to Mr Craddock insofar as reliance is placed on the use of the word "territory" in the Sponsorship Agreement. It needs to be borne in mind that the Sponsorship Agreement concerned not only use of the GNC marks but also of Holland & Barrett's own mark. There is no doubt in my mind that H&B regarded the



latter as more important. Holland & Barrett was, as Ms Hobbs put it, H&B's flagship brand.

214. The word "Territory" as defined appears in clause 2 of the Sponsorship Agreement. Under clause 2, it is the Club which grants something to H&B, namely the Sponsorship Rights. H&B is able, but is not obliged, to exercise those rights in any country (insofar as they are capable of exercise in any given country): it could use the Holland & Barrett mark anywhere in the world, although it could not use the GNC mark outside the UK without breaching clause 2.7 of the LA. There is nothing in clause 2 to which GNIC could object. It could, of course, object if H&B actually exercised its sponsorship rights in a way which infringed the LA.
215. In contrast, the word "Territory" does not appear in clause 4 of the Sponsorship Agreement, nor did it appear in earlier drafts of that clause although earlier drafts did include the word "worldwide". Under clause 4 it is H&B which grants something to the Club, namely a limited licence to use the Sponsor's Mark. That licence is limited to the three matters specified in clause 4.1.1, 4.1.2 and 4.1.3. Again, GNIC can have no objection to the inclusion of clause 4.1., although if a Sponsorship Right is actually exercised in a way which breaches the LA, then GNIC can complain. Indeed, it is said that the use of the GNC mark on perimeter hoardings is precisely such a case.
216. In cross-examination, Mr Craddock addressed the use of the word "Territory" in relation to clause 2. As I understand what he was saying, it was that clause 2 was concerned with giving certain rights exclusively to H&B (albeit throughout the Territory *ie* the world). In contrast, clause 4 was giving certain rights to the Club to use the marks without it being expressly stated that such rights were exercisable anywhere in the world. Mr Craddock's point was that it would not have made any difference even if the words "throughout the world" had remained in the opening words of clause 4.1: it would not have made any difference because the authorised use was limited to the three matters set out in clause 4.1. And Mr Craddock saw those uses as being restricted for all practical purposes to the UK with only *de minimis* use outside the UK which he did not, rightly or wrongly, regard as material as explained in his witness statement. I do not consider that what Mr Craddock said in his witness statement together with what he said in his oral evidence should cause me to doubt his integrity or honesty. He may have been wrong in his assessment that the actual implementation (as approved by H&B) of the Sponsorship Rights would not lead to breach of the LA (and in particular, in his assessment of the impact of televising matches) and he may have been wrong in thinking that the Club's licensing programme for Club-related products (and in particular, the sale of T-shirts and certain use of kit bearing the GNC Sports Nutrition banner outside the UK) would not lead to a breach of the LA. I do not, however, accept Mr Baldwin's description of his evidence as incredible.
217. Since it will be relevant, when considering materiality of breach, I record here Mr Bloch's submission, which I accept, that following the making of the Sponsorship Agreement in August 2013, an entire rugby season went by without complaint from GNIC about the promotional activities about which complaint is now made. It was only in June 2014, following GNC's re-entry into the UK market by the acquisition of Discount Supplements that GNIC raised its complaints about H&B's sponsorship of the Club and the methods of delivery of the benefits to which H&B's was entitled under the Sponsorship Agreement.

## Complaints and argument

218. At this stage of my judgment, I want to say something about what H&B was entitled to do under the LA and what it was prohibited from doing. Much of GNIC's complaint appears to me to be about an alleged change in the brand image of GNC in the UK. According to GNIC, H&B has changed the brand image of GNC from being a general health and wellness brand, to being a sports nutrition brand. Frequently, and pejoratively, that latter description is juxtaposed in the presentation of GNIC's case with "body building" with a view, it seems to me, of tainting the brand image actually developed (sports nutrition) with something which would be perceived by some as less savoury (body building) and thereby to demonstrate a breach of clause 3.1(b) of the LA.
219. The reality, as the evidence establishes and which I accept, is rather different. The sports nutrition market, some years ago, may have been seen as focused on the rather fringe market of body-builders. But that has not been so for a considerable time. Sports nutrition is now, and has been during the period relevant to the complaints made by GNIC, a well-developed market aimed at the large number of people who now engage in physical fitness activities generally and sporting activity in particular. In the past, it may be that certain sectors of the health nutrition market would have been put off – and may still be put off – by a body-building image and thus be put off purchasing products from a supplier which promoted itself as one focused on body-builders as its customers and whose retail outlets were also focused in their displays and product range on body-builders. I can accept that promotion and advertising based on a body-building image may put-off, perhaps repel would not be too strong a word, some people to the extent that they would decline to buy products from retailers using the GNC marks or running shops bearing the GNC logos.
220. Ms Wilson, as I have already identified, gave some evidence about the profiling adopted by GNC in the US. In more detail, it uses three main profiles or "personae": "Preventative Petra", "Fitness Finn" and the "Millennials". Preventative Petra is aged 35 and over, usually female, and family-focussed. When looking for health products, Petra looks for supplements that will provide a rounded diet, a better quality of life and will reduce the risk of potential disease for herself and her family. Fitness Finn, more often male, is an active, outdoor type who wants to look and feel good and is interested in diet and fitness. Millennials are always in a hurry. Whatever they want to achieve to maintain a healthy lifestyle, they want it quickly, whether that be a nutritious breakfast on-the-go, a boost to their appearance (nails, hair, skin), or something to refuel after a run. She adds that this strategy is derived from a piece of American consumer research, but there is general acceptance in the industry of these profiles, evidence which I see no reason to doubt.
221. She adds that GNC aligns its choice of media and message with these personae. So, for example, while Preventative Petra is more oriented towards traditional media such as TV, radio, and print, Fitness Finn and the Millennials are more active online and on social media, and are more receptive to advertising through these channels.
222. I can accept that different "personae" will be attracted by different marketing and different products. I am, however, wholly unpersuaded by any suggestion that GNC customers (in the UK at least) interested in health and wellness products would be put off purchasing such products under the GNC label either because they see

advertisements or other promotions of GNC focusing on sports nutrition. The evidence simply does not support that suggestion (although potential customers may in fact be unable to buy general health and wellness products other than in a sports nutrition environment because they are simply not available elsewhere). Indeed, the evidence insofar as it does anything in this respect, suggests to the contrary. Thus:

- i) The GNC Group itself promoted body building products. Mr Hennion, one of the most senior executives, was concerned about dispelling the body building image: see paragraph 154 above). Even if one were to take Mr Baldwin's explanation of what Mr Hennion was saying (namely that GNC wanted to reduce reliance on sales to bodybuilders and expand on sales to, for example, female customers) as correct, which I do not, a move away from body-building does not entail a move away from or putting a brake on a move towards sports nutrition.
  - ii) The GNC Group promoted (and so far as I am aware still promotes) sports nutrition as one of its focuses. I have been shown photographs of advertising hoardings in the US using the words "sports nutrition" with the GNC mark, albeit that other words such as "wellness" were also used. I find it difficult to see how GNIC can now contend that "sports nutrition" would put off customers interested in health and wellness products.
  - iii) The GNC Group advertised at sporting events, including ice-hockey. Ms Wilson's evidence was that she considered ice hockey and rugby football to be of equivalent levels of physical violence. I find it difficult to see how GNIC can now contend that potential customers of GNC health and wellness products would be put off by an association between the GNC mark and sporting activities and thus by an association with sports nutrition.
223. One of GNIC's contentions is that H&B has changed the GNC brand in the UK from being a general health and wellness brand to being a purely sports nutrition brand. The starting point for that contention is that the GNC brand in the UK was a well-known (whatever that may mean) brand in the health and wellness market. That was not common ground at the start of the hearing and I am not aware of a concession to that effect by H&B. Indeed, Ms Hobbs in her evidence said that the GNC brand was not a well-recognised name in the UK. It has certainly not been established on the evidence before me that GNC in the UK – whatever may have been the position in other countries, in particular the US – is well-known at all today let alone that it was well-known in 2003 (whether in general health and wellbeing products or sports nutrition products or body-building products). However, whether or not the brand was well-known, the evidence shows, in my judgment, that GNC in the UK at the time of the acquisition by H&B in 2003 was not purely a sports nutrition brand; it included general health and wellness products. But equally, I am satisfied that sports nutrition was a core part of the business and that any customer entering a GNC shop would be confronted with displays and other material relating to sports nutrition products. Sports nutrition products were not tucked away in a corner but constituted a significant proportion of the overall presentation by floor space and product range. I go further. In my judgment, it would not be right to describe the business of GNC in the UK, prior to H&B's acquisition, as that of a seller of general health and wellness products which happened to include some sports nutrition products. Rather, the sports nutrition element of GNC's operation was a core element of its activities. In terms of

branding, “GNC” covered all elements of the business; it was in that sense an umbrella. But a central element of that business was sports nutrition and the umbrella would be recognised for what was under it, a significant element being sports nutrition.

224. With the possible exception of the use of “SPORTS NUTRITION” in conjunction with “GNC” within shops, I do not understand it now to be contended by GNIC that the manner in which any particular retail outlet was operated gave rise to a breach of the LA or to any infringement of GNIC’s marks. In contrast, it is contended that the way in which the retail outlets were overall operated and the way in which the business was promoted and advertised resulted in the change of brand image about which complaint is made, a change in which the use, allegedly in breach of the LA, of GNC SPORTS NUTRITION played a significant part.
225. In my judgment, but subject to that possible exception, H&B was entitled to operate the retail outlets in the way which it has even if the result has been to change the GNC brand from one which subsumed both sports nutrition and general health and wellness. The LA licensed H&B to use the GNC marks on or in relation to Products which is what has occurred. Subject to that possible exception, H&B has not used the marks on any other Products (at least in a way in respect of which any complaint is pursued, such as on food). In the following paragraphs, I address (a) to (e) of clause 3.1 of the LA to make good my conclusion.
226. Clause 3.1(a): There is nothing to suggest that H&B has used GNC’s marks in a form which is not substantially the form stipulated in Schedule 1 to the LA. If and to the extent that the use of “SPORTS NUTRITION” together with “GNC” is objectionable, that is because it amounts to an alpha addition prohibited by clause 3.1(d). If it is not a breach of that provision, then it is not a breach of clause 3.1(a) either. If it is a breach of clause 3.1(d), then it adds nothing to say that it is also a breach of clause 3.1(a). My view, however, is that it would not, even in those circumstances, be a breach of clause 3.1(a) which I consider is concerned with the presentation of the marks themselves rather than with their presentation together with any of the additions specifically referred to in clause 3.1(d).
227. It has been suggested that clause 3.1(a) imposes an obligation on H&B to use the marks across the entire range of the Products in respect of which the marks are registered. I do not agree with that suggestion. The sense of the provision is that H&B shall only use the marks in the form stipulated and not in any other form. The sense is not that H&B shall use the marks and shall do so substantially in the form stipulated; but even if it were, there is nothing to require that the marks be used across the entire range of the registration.
228. Clause 3.1(b): In my judgment, the use of marks in and about the retail outlets by H&B has not resulted in use “in a manner derogatory” to GNIC’s rights in the marks. Nor has the use of the marks in conjunction with “Sports Nutrition” been derogatory even if it is a breach of clause 3.1(d). Further, in my judgment, it has not been demonstrated by GNIC that such use (whether with or without the words “Sports Nutrition”) has caused a material dilution of its rights in the marks. The suggestion that there has been dilution must be based on one or both of the propositions (i) that the use of the marks in such a way as to transform the brand into a sports nutrition brand has adversely affected GNIC’s rights in the marks and (ii) that there has been a

failure to use the marks across the range of goods and services for which the mark is registered with a resulting risk of challenge to the continuing validity of the marks.

229. As to the first proposition, I do not consider, subject always to the second proposition, that GNIC's rights in the marks have been diluted by the use of the marks only in respect of sports nutrition products. If the LA were to be terminated, GNIC would be entitled to use its marks however it wishes. The GNC brand which would be inherited from H&B may be narrower than it could be, but it is then open to the GNC Group to develop its own business using the marks across the whole range. The proper commercial exploitation of the marks during the currency of the LA is a matter for H&B. In my view, clause 3.1(b) is not there to enable GNIC to constrain the *bona fide* commercial decisions of H&B. Of course, H&B's exclusivity in that regard is not without limits. H&B cannot act in a manner derogatory of GNIC's rights or cause a material dilution of those rights. It could not, for instance, use the marks on products which fall within the definition of "Products" in a way which infringed any regulatory requirement and if it did so that may well be seen as "derogatory" or as causing "material dilution". Nor could it use the marks in a way which would otherwise be authorised under the LA but which leaves a stigma, for instance a widely-publicised supply of products to an organisation held in general opprobrium by the public, since that would risk a material dilution as a result of the use of the marks.
230. I do not overlook the fact that the function of a trade mark goes beyond that of indicating origin and that a trade mark "is often, in addition to an indication of origin of goods or services, an instrument of commercial strategy used, *inter alia*, for advertising purposes or to acquire a reputation in order to develop consumer loyalty": see the judgment of CJEU in *Interflora Inc v Marks & Spencer plc* Case C-323/09, [2012] FSR 3 at [39]. It seems to me that, by licensing the marks to H&B, GNIC has ceded questions of commercial strategy and consumer loyalty to H&B. The GNC UK business is, after all, that of H&B not of the GNC Group, albeit that goodwill attaching to the marks is for the ultimate benefit of GNIC under clause 3.2 of the LA. Clause 3.1(b) is not, I consider, intended to constrain H&B in the proper conduct of its business (albeit subject to the sort of constraints indicated above). If GNIC had wished to ensure that H&B was obliged to use the marks across the entire range of registration, contractual terms to that effect should have been included in the LA. It follows that H&B was entitled to pursue a commercial strategy focusing on the sports nutrition element of the GNC UK business, ultimately to the exclusion of other elements. It would have been entitled to advertise the GNC brand in the UK in a way which focused on sports nutrition: the fact that a trade mark has an advertising function in the sense explained in *Interflora* does not mean that the mark cannot be used in relation to a particular aspect of a business. It is a different question to which I will come whether the incorporation in the present case of "Sports Nutrition" to "GNC" gives rise to a material breach of the LA.
231. But even if all or some of the preceding two paragraphs is wrong, there is no evidence that the actual use of the marks by H&B has caused any material dilution of GNIC's rights in them. From a commercial perspective, H&B has clearly considered that the focus of the GNC mark should be on sports nutrition: that is the way in which it sees the marks being effectively exploited. The evidence also shows that the GNC Group attempted to enter the UK sports nutrition market. It failed in that endeavour because

it was unable to use the GNC mark. Insofar as the evidence goes, it is to the effect that the use of the marks in the sports nutrition field was the very item of value which the GNC Group wished (and no doubt would wish in the future) to exploit. There has been no practical dilution in the UK of GNIC's rights in the marks.

232. A similar analysis applies to clause 4.4. Further, I do not consider, in any case, that that provision is concerned with a change in the image of the marks. The words "or do any act or thing which substantially impairs the rights..." must be construed in the context of a provision which, in other respects, is to do with ownership of the mark or the validity of the registration. It is concerned with factors which might suggest that the rights which registration of a trade mark confer are put at risk by the activities of the licensee. It does not seem to me that GNIC's rights are in any way put at risk by a change in image of the brand although, were it validly to terminate the LA, the image of the brand might then be different from that which it would wish. GNIC's rights are not adversely affected since it will have the right and power to change the brand in any way it wants.
233. As to the second proposition, it was not one which was articulated in argument. I was not taken, other than in passing, to the trade mark registrations and have no idea of the extent, if any, to which H&B has in fact failed to use the marks in relation to any goods or services subject to the registrations.
234. Clauses 3.1(c) and (e): These are not relevant to the particular question which I am now considering, namely the use of the GNC marks on Products in retail outlets in the UK.
235. Clause 3.1(d): I deal with the issue of alpha additions to the marks later: see paragraph 237 below.
236. My conclusion is that a change in the brand image of GNC in the UK from that which I have already identified as existing at the time of the acquisition by H&B to a sports nutrition brand did not, *per se*, give rise to any breach of the LA. It is only if the manner in which that was achieved gives rise to a breach of the LA that GNIC has a ground of complaint.

### **Alpha additions**

237. The next issue I wish to address is whether the use of the words "SPORTS NUTRITION" following the mark "GNC" have been incorporated as an alpha addition to the mark within clause 3.1(d) of the LA as GNIC contends or whether it is a mere strap-line as H&B contends. GNIC relies on a number of such uses which I have addressed to some extent at paragraphs 188 and 189 above. In case there is any doubt about it, I find the following facts:
- i) The use complained of by GNIC did take place. It started in 2013. It can be seen on carrier bags used in the stores (a picture of which appears in the bundle); it appears on the hoardings, banners and signage at the Welford Road Ground and it appears on replica training kit and T-shirts. The logo appearing on the replica kit was designed in-house by H&B and was provided to the kit manufacturer, Canterbury Clothing Ltd, by Ms Hobbs. It also appears on T-shirts.

- ii) On the carrier bags, the letters GNC are in large black upper case letters across the bag; the words SPORTS NUTRITION appear in smaller black upper case letters underneath GNC. On the replica kit and T-shirts, which are green, the letters GNC appear in large white upper case letters. Underneath the letters GNC in small yellow letters appears “sports nutrition” although I am unable to see from the photographs whether that is in upper case or not. The overwhelming impression of the logo on this kit is the GNC element. At Welford Road, the letters GNC appear in large upper case letters with “Sports Nutrition” following on in smaller lettering in a different colour. In contrast with the kit which I have just mentioned, the words “sports nutrition” form a significant part of the impression of the hoardings, banners and signage.
238. The line between words which are and are not incorporated as an alpha addition to the mark is not an easy one to draw. Mr Baldwin, referring to the passage which I have already quoted from *Interflora*, submits that if words are added to a mark which might say something to consumers about the goods or business of the proprietor, they become part of the mark. I would not go that far. For instance, an advertisement might contain words to the effect “GNC for all your sports nutrition needs”. In this example, the words after “GNC” are not incorporated into the mark; they are merely urging the reader to acquire GNC products to satisfy their needs rather than the products of some other supplier. In contrast, some words clearly would be incorporated into the marks. Suppose, for instance, that the mark “GNC Live Well” had not been registered. I have no doubt that the words “Live Well” used in conjunction with “GNC” would then result in those words being incorporated into the GNC mark. The words “Live Well” are not simply saying “Use GNC products to live well”; rather, attaching the words to the mark produces a single impression projecting an association of GNC and wellness.
239. The use of the words “Sports Nutrition” is more problematical. On one view, “GNC SPORTS NUTRITION” might be perceived as saying no more than “GNC for all your sports nutrition needs” so that there would be no incorporation of “Sports Nutrition” as an alpha addition to the GNC mark. On another view, “Sports Nutrition” can be seen as fulfilling the same function as “Live Well” or “Herbal Plus”, the function here being as an instrument of commercial strategy used, *inter alia*, for advertising purposes or to acquire a reputation in order to develop consumer loyalty. In that case, there would be incorporation of “Sports Nutrition” as an alpha addition to the GNC mark,
240. It does not, of course, follow from *Interflora* that wherever a mark is used as an instrument of commercial strategy, for instance advertising, that the words adopted in furthering that use are incorporated into the mark. That is shown by the example I have given of “GNC for all your sports nutrition needs” where the words are not incorporated into the GNC mark. In my judgment, however, the words “SPORTS NUTRITION” on the carrier bags and the displays at the Welford Road ground are incorporated as alpha additions to the GNC mark. They are not merely a strap-line; nor are they an immaterial addition. The conjunction of “GNC” and “SPORTS NUTRITION” creates a composite label for at least one aspect of H&B’s GNC brand going beyond an advertising statement that GNC UK sells sports nutrition products.
241. I use the words “at least one aspect” because, so it seems to me, the question of incorporation does not turn on whether or not H&B was changing the brand from a

general health and wellness retailer to a sports nutrition retailer, although a change in brand image might be relevant to materiality for the purposes of clause 5 of the LA. Mr Baldwin submits that the test for whether there is an incorporation so as to fall foul of clause 3.1(d) is whether the addition serves to impact on any of the essential functions of the trade mark. I do not agree with that. Consider, for instance, a change in the graphic presentation of the GNC mark which change is, on any view, incorporated into the mark. Such change may be inoffensive and have no impact on the message conveyed. In such circumstances, there would, nonetheless, be a breach of clause 3.1(d). It would not, however, be a material breach and would not fall within clause 5.1(a); it would however fall within clause 5.1(b) so that if, for some reason, GNIC decided to serve a notice under that clause (perhaps because a senior executive has taken a particular aesthetic objection to the graphic addition), H&B would have to comply with the notice or risk termination of the LA.

242. The position in relation to the replica kit and the T-shirts is less clear. On balance I am of the view that the use of words “SPORTS NUTRITION” on the kit and T-shirts does result in the incorporation of those words as an alpha addition to the GNC mark on those items too.
243. It is interesting to note the contents of a screen-shot of a page of the H&B (then NBTY) website in July 2014. It is headed “Brands For Your Well-Being” and contains the 20 logos of various brands including “HOLLAND & BARRETT the good life” and “GNC SPORTS NUTRITION” together with the web address [www.gnc.co.uk](http://www.gnc.co.uk) underneath it. H&B clearly saw GNC SPORTS NUTRITION as a brand and, consistently with that, the (unregistered) logo is properly to be seen as a single mark comprising the GNC mark into which the words SPORTS NUTRITION have been incorporated. That is not determinative of the issue and, indeed, I have not relied on it in reaching my conclusion. It is, nonetheless, interesting to observe H&B’s own perception.
244. In my judgment, therefore, H&B was in breach of contract in using the words “SPORTS NUTRITION” in conjunction with “GNC” on carrier bags, banners, hoardings and signage at the Welford Road ground, replica kit and T-shirts.

### **Replica kit and T-shirts**

245. There is a further complaint made by GNIC in relation to replica kit and T-shirts. I have outlined the position already at paragraph 190 above.

### **Materiality**

246. Mr Baldwin addressed the change of branding asserted by GNIC (*ie* from a general health and wellness brand to a sports nutrition brand) in the context of incorporation within clause 3.1(d) of the LA. As I have explained, I do not consider that alleged change to be relevant to the incorporation issue. But it is relevant in relation to the issue of materiality as will, I hope, become clear.
247. I make two preliminary points. The first is, perhaps obvious, but is important. The point is that the materiality of a breach of clause 3.2(d) of the LA is to be judged in the context of the breach. It is not simply that there has been an impermissible incorporation of additional graphics or words; there also needs to be an assessment of



the way in which the GNC mark with the SPORTS NUTRITION addition has been used. A single isolated use of the resulting mark in a small marketing presentation to a small group of people may mean that the breach is immaterial whereas use in a nationwide advertising campaign may result in the breach being highly material. Similarly, display of the GNC mark with the SPORTS NUTRITION addition to existing customers interested only in sports nutrition goods may be immaterial whereas display to a wider public may be material. Further, materiality of the breach is not to be equated with materiality of the addition. Viewed simply as an addition, the words SPORTS NUTRITION would, I think, be regarded objectively as a material addition. Whether that (material) addition gives rise to a material breach of the LA is a question which cannot be answered in abstract; it can only be answered in the context of the use which is made of the altered mark.

248. The second preliminary point is that the use of the GNC mark with the added words SPORTS NUTRITION about which GNIC complains began only in 2013 and the complaints are pursued only in relation to the items already mentioned, that is to say carrier bags, banners, hoardings and signage, replica kit and T-shirts. Although GNIC's submissions refer to, and complain about, the change of brand image since the acquisition by H&B in 2003, the alleged breaches of the LA relied on do not include a change in the brand image *per se* but only the use of the composite GNC Sports Nutrition words. If the use of those words has brought about a change in the brand image, I can see the argument that there has been a material breach of the LA. But if the image of the GNC brand in the UK was, by the time of the breaches complained of, already that of a sports nutrition brand, it is much more difficult to argue that the breaches were material insofar as they relate to the UK.
249. Before turning to the change in brand image in more detail, I say something about the meaning of material breach within the meaning of clause 5.2(a) of the LA. Mr Baldwin has referred me to the decision of Mann J in *Crosstown Music Company 1, LLC v Rive Droite Music Ltd* [2009] EWHC 600 (Ch) (and the references in that decision to other cases) which he submits provides some useful guidance about the meaning of materiality. Mann J referred to a checklist set out by Neuberger J in *Phoenix Media Ltd v Cobweb Information* (unreported, 16 May 2000) describing it as helpful. Neuberger J considered that "materiality" involved considering the following:
- i) the actual breaches;
  - ii) the consequence of the breaches to the innocent party;
  - iii) the guilty party's explanation for the breaches;
  - iv) the breaches in the context of the relevant agreement;
  - v) the consequence of holding the agreement determined and continuing.
250. Those are no doubt matters which should be considered in the present case. But ultimately, the question is one of construction of the particular agreement concerned. In the *Crosstown Music* case, the agreement made provision for automatic reversion of certain copyrights in the case of a material breach which went unremedied after a period of notice. In contrast, the present case give no opportunity to H&B to remedy

a material breach: GNIC has an absolute right to terminate the LA in the case of material breach. GNIC also has the right, in the case of a non-material breach, to require the breach to be remedied (if it is remediable): if a remediable breach is not remedied within the specified period of 60 days after notice, GNIC can terminate the LA. That contrast, coupled with GNIC's rights in the case of non-material breach, leads me to conclude that it is appropriate to adopt a high threshold to what is "material". That is consistent with the second limb of clause 5.2(a) giving GNIC the right to terminate the LA if H&B otherwise infringes (that is to say otherwise than under the LA) GNIC's rights under the Trade Marks to an extent likely to cause material loss. In effect, clause 5.2(a) is concerned with breaches which have serious consequences.

251. Returning to the facts, the brand image of GNC in the UK in 2013 is not entirely clear. Ms Cockerill explains in her witness statement that a wide range of Stock Keeping Units were being sold in GNC stores at the time of the 2003 acquisition. She says, and I accept, that over the years H&B "condensed and rationalised the products sold in the store to ensure that they are more closely aligned with sports nutrition". As I have already explained, I consider that H&B was entitled to take this course. Mr Baldwin relies on that evidence in support of a submission that H&B had tried to change the image of the brand by changing the product line; but this had not moved the brand in the way in which H&B wanted "so that it was forced to add the alpha addition SPORTS NUTRITION to try and get that message across to consumers". That part of Ms Cockerill's evidence actually says nothing about brand image: she merely gives uncontroversial evidence about the condensing and rationalisation of the product line. He also relies on what Ms Hobbs says in her first witness statement at paragraphs 17 to 20:
- i) In paragraph 17, she explains that she took over marketing and promotional strategy in 2009. There was little "above the line" advertising of the GNC brand other than some advertisements in local newspapers. GNC did not have a big enough presence in the UK from a brand perspective to justify large advertising campaigns.
  - ii) In paragraph 19, she explains that the primary marks used by GNC UK as product brands since 2003 have been GNC and GNC LIVE WELL.
  - iii) In paragraph 20 she explains that the words "Sports Nutrition" were used (she describes it as a "strapline" which was "by way of educating consumers about the brand, as the GNC brand is not a well-recognised name in the UK. The strapline was adopted purely to improve recognition and inform consumers about the brand identity of the GNC brand in the UK". This use started in 2013 (at least, no reliance is placed on any pre-2013 use if there was any), initially on social media and then extended into other advertising and promotional material including the signage at Welford Road.
252. And so Mr Baldwin contends that H&B intended to influence the message conveyed by the GNC mark and intended to portray GNC as a mark which signified Sports Nutrition goods; it intended to change the original message presented by the marks in 2003, which he says was of a general health and wellness brand, to one which was of a specialist sports nutrition brand. Importantly he submits that this successful transformation was achieved by "extensive use of the GNC SPORTS NUTRITION

branding, use of which, as Ms Hobbs explained, was needed to convey the message that H&B wanted to convey”.

253. That there has been a change of branding from 2003 to the time when the business was rebranded under the MET-Rx banner is clear on the evidence, although, as I have explained, the GNC brand in the UK in 2003 was not quite as described by GNIC in this litigation. Also clear is that the introduction of the GNC SPORTS NUTRITION wording (not on products, but in the manner of which complaint is made) was intended by H&B to educate customers about the brand and to improve recognition and inform customers about the brand identity of the GNC brand in the UK.
254. I do not, however, accept Mr Baldwin’s submission that H&B was forced to use the GNC SPORTS NUTRITION mark because the rationalisation of its product range had failed to get the message across that GNC was a sports nutrition brand. By the time this mark was first in use, the GNC UK business was in fact a sports nutrition business. The GNC brand was not well-known: as Ms Cockerill put it in the passage of her witness statement relied on by Mr Baldwin, the “GNC brand is not a well-recognised name in the UK”. The problem facing H&B was not that GNC was a well-recognised brand in general health and wellness products and that H&B was unable to shift the image to sports nutrition without using the GNC SPORTS NUTRITION mark; the problem was that GNC was not well-recognised at all. Use of that mark would assist in achieving improved recognition of the GNC brand in the field in which it operated, namely sports nutrition. Thus, not only was the use of the new mark (albeit seen by Ms Cockerill and perhaps others as simply a strapline) intended to improve brand awareness, that is to say the existence of the GNC UK business, it was also intended educate customers about what the GNC brand actually was in the UK. The position, so it seems to me, was that by the time the mark was in use with the addition, H&B had already turned the GNC UK business into a sports nutrition business.
255. A person who already knew of GNC who had any interest in its products would know of the nature of its business: it would be entirely immaterial to such a person to see the GNC brand promoted as GNC SPORTS NUTRITION rather than simply GNC since he or she would already know that GNC was a sports nutrition brand. The breach of the LA taking place by the use of that mark would, so far as such persons are concerned, have no material consequence and the breach *vis a vis* such persons would not be a material breach.
256. It is interesting to contrast that with the position of a person who had not heard of GNC. If GNC UK had produced carrier bags, for instance, with just GNC on them, such a person seeing such a carrier bag carried in the street might wonder what GNC was. If interested enough, he or she could, for instance, conduct an internet search and would almost certainly, in the UK, end up on a website showing exclusively sports nutrition products. If not interested at all, such a person would not know even what type of products the GNC branding indicated. However, the actual carrier bags and other items in fact included the additional words SPORTS NUTRITION at least indicating that the GNC brand was concerned with Sports Nutrition products. The uninterested person would learn something that he or she would not otherwise have learned and will associate GNC with Sports Nutrition. That association would, however, have been correct by the time the mark with the added words was being used. The interested person would simply have appreciated earlier than would

otherwise have been the case that the GNC brand was a sports nutrition brand. In neither case, however, will the breach of the LA have been material: the breach will have had no impact on the relevant person of any detriment to the GNC brand, that is to say a sports nutrition brand.

257. It would only be if there was a class of person in the UK who, in 2013 and later, understood the GNC brand in the UK to be a general health and wellness brand that the position might be different. The breach of the LA might, for a person in that class, change the image of the brand held by such a person to a sports nutrition brand. But even in this case, the breach of the LA would not, in my view, have been material. By this time, the GNC UK business was, in fact, a sports nutrition business so that a person who held the image of the GNC brand in the UK as being a general health and wellness brand would have been mistaken. Entering a GNC shop to buy wellness products not within the sports nutrition range, the customer would be disappointed and would learn that the GNC brand in the UK was in fact a sports nutrition brand.
258. In my view, therefore, the use of the GNC SPORTS NUTRITION mark in the UK in the way complained of by GNIC on carrier bags and on banners, hoardings and signage at the Welford Road ground was not a material breach of the LA. That conclusion, in relation to the banners *etc* at Welford Road, is reinforced by this consideration: spectators at a rugby football match are hardly likely to be the sort of people who would be put off buying GNC products other than sports nutrition products (even assuming counter-factually that they were available) by an association of the GNC brand with sports nutrition. Quite the opposite: I would expect GNC UK to have drawn attention at such matches to the fact that it was in business selling sports nutrition products. Had it done so without incorporating a forbidden addition to the GNC mark, GNIC could have had no objection.
259. Further, but subject to one particular issue, the use in the UK of the GNC SPORTS NUTRITION mark on replica kit and T-shirts was not a material breach of the LA. Use outside the UK, including “spillage” through overseas television broadcasts is a different matter to which I will come in a moment. The particular issue to which I have just referred is the consequence, if any, of such items being manufactured and sold by third parties as a result of the implementation of the Sponsorship Agreement. I will return to this later.
260. Next, I reject any suggestion that damage would be caused to the GNC brand by its association with the Tigers. I agree with Mr Bloch’s submission to that effect and with his reliance on Ms Wilson’s evidence in relation to the use by GNC South Africa of Jan Serfontein, a South African rugby player, as its “brand ambassador”. Ms Wilson said this in cross-examination:

“the reason I do not see a problem with that is that I do not necessarily feel that because he happens to be a rugby player that that is detrimental, and the reason for that is it is aspirational. You do not have to be completely focused on sports nutrition to have a brand ambassador who is a sports personality, if you like. There are many brands, for example, in the United Kingdom that would not be perceived to be a sports nutrition brand, and yet have ambassadors that are sporting personalities. It is commonplace and that is largely because the

general public, I believe, aspire to be famous, they aspire to be fit and well and they hold these people in great esteem as examples of how to do it well. And that is why brands chose sports people, because they are famous and there is a great deal of interest in them. So, you do not have to be a sports-orientated supplement company; you could just be a multivitamin company and still have a brand ambassador that is a sporting hero.”

261. Of course, it can be pointed out that Ms Wilson said what she did in the context of promoting the GNC brand generally not the promotion of a specific sports nutrition brand. But that is not the point Mr Bloch was making. His point was that the GNC brand (even assuming it was a general health and wellness brand, I would add) is not damaged by its association with the Tigers.
262. As to spill-over by broadcasts overseas, GNIC has at times taken the position that the broadcast of the GNC mark on the Welford Road stands would be damaging. This point is made generally in relation to the GNC mark and not simply in relation to that mark with the SPORTS NUTRITION addition. GNIC’s evidence about this came from Mr O’Connor who said that such broadcasting would (i) create relationship strains between GNC US and partners in other territories (ii) compromise possible negotiations where there was no such partner and (iii) create a risk of confusion among the public.
263. Mr Bloch submits, and I so find, that none of these problems have ever arisen in respect of promotion or marketing. Mr O’Connor was unable to think of a single example of any such problems arising outside of the context of actual sales by a franchisee in one country of products within the territory of another franchisee as to which GNC UK has never sought to sell its products overseas. Moreover, Mr Green accepted that spill-over advertising using the GNC mark would be welcomed by franchisees. And Ms Wilson accepted that the GNC mark would not be tarnished in the UK by spill-over broadcasting of the GNC US-sponsored Pittsburgh Penguins ice-hockey matches (a sport of equivalent violence to rugby football according to her evidence). I find as fact those two matters accepted by Mr Green and Ms Wilson.
264. The spill-over of the composite mark GNC SPORTS NUTRITION is a different matter. The GNC brand in some, if not all, of the territories to which the Tigers’ matches were broadcast was a general health and wellness brand, in some, if not all, cases including a sports nutrition element in the relevant business. GNIC’s case is that this spill-over will have a detrimental impact on the brand image as a whole. Mr Bloch submits that such a case is not credible. He puts his case in his written closing submissions as follows.
265. In the first place, GNIC cannot object to the association, in promotion or marketing, of the GNC mark with sports nutrition goods, given that it sells those goods. There is no dispute that:
  - i) 45% of all products sold by GNC US fall within that category, on their own definition of the category. This appears from Mr Green’s cross-examination;

- ii) the market is an increasingly valuable one in the US and elsewhere in the world (in the sense that it continues to grow) as Mr O'Connor accepted;
  - iii) the market is highly competitive; and
  - iv) as he put it, the GNC Group would be a fool not to put a big effort into attracting sports nutrition customers.
266. The GNC Group itself, unsurprisingly, he says, in the light of those facts, promotes the association between the GNC brand and sports nutrition in its own promotion and advertising. A review of the marketing and advertising activities of the GNC Group in the United States reveals a number of examples in which, according to Ms Hobbs, an unequivocally sports nutrition-based message is being communicated. I have looked at the examples she refers to and agree that the message at least contains a significant element of sports activity and sports nutrition. The same message can be found conveyed in the advertising by franchisees on their websites, showing a significant focus on sports and sports nutrition. Examples include the Facebook, Twitter, Instagram and YouTube pages of GNC Russia, Philippines, Bangladesh, Thailand, South Africa Romania, Canada and Guatemala (in particular those for South Africa which show body-building images). Ms Hobbs also refers to similar pages for Singapore, Trinidad and Tobago, Ireland and Vietnam but those appear to me to convey a mixed message not particularly focused on sports nutrition. She also refers to a page of what she thinks is the front page of an IPO in the US of the New York Stock Exchange in 2011; GNIC has not suggested that that is wrong. The page shows what she (accurately in my view) describes as five young, fit individuals. Three are shown in sports contexts (holding a basketball or bicycle or leaning against a sport locker) and the other two are shown in sportswear. The page also shows four of the nutritional supplement ranges of GNC US. I agree with Ms Hobbs' assessment that the core brand message conveyed by this page is that of sports nutrition.
267. Mr Bloch also relies on the use by the GNC Group of the words "Sports Nutrition" on in-store signs (for instance a sign labelled "SPORTS NUTRITION HEADQUARTERS) and in shop windows as well as on billboards and other advertisements using words such as "sports nutrition and wellness to fuel your life". Several of these billboards contain pictures of people clearly undertaking sports activities. I agree with him when he says that such use shows that:
- i) the words SPORTS NUTRITION are not considered by the GNC Group to alienate consumers or damage the association of the GNC brand with "wellness". This is something which Ms Wilson accepted in cross-examination;
  - ii) "sports nutrition", as a category, has a wide appeal. The billboards show a wide range of individuals, pursuing a wide variety of fitness related activities. This was illustrated by Ms Wilson's evidence concerning the appeal of sports nutrition products to the woman on the "Live Hot" billboard where she gave examples of sports nutrition products that female consumers wishing to emulate that woman would buy.
268. Next, Mr Bloch relies on the use by the GNC Group or its franchisees (with GNC's consent) of the letters GNC alongside sports nutrition sub-brands such as "Pro

Performance”, “GENETIXHD” and “Beyond Raw”. Such use, he says, undermines GNIC’s case:

- i) firstly, the GNC Group is not concerned that the GNC mark, as its all-important umbrella brand, will be undermined by its association with sports nutrition specific sub-brands. Ms Wilson, when asked, agreed that there was nothing in the use of the GNC mark with “Pro Performance” in the window of the Qatar store which was damaging to the GNC brand equities generally. The picture there also shows “SPORTS NUTRITION” in conjunction with GNC Pro Performance AMP over photographs of one man lifting weights and another either sprinting or hurdling. Mr Baldwin says that this is all irrelevant because GNIC’s complaint is about the change in the brand message. The fact that GNC US or other countries may have sold sports nutrition products is *nihil ad rem*. But as I have endeavoured to show, the “change-of-message” argument is faulty;
- ii) secondly, the GNC Group is not concerned that the GNC mark will lose its distinctiveness, as a mark, by the use of that mark alongside sub-brands, such as “Pro Performance” or “Beyond Raw”, which might themselves be distinctive, and which have been registered in combination with the GNC. Mr Bloch submits that, in that respect, they should, on GNIC’s case, be even more damaging than the generic words “sports nutrition”; and
- iii) thirdly, the GNC Group is sufficiently unconcerned in this respect to deploy such sub-brands alongside the GNC mark not only upon signs and promotions, but upon the products being sold themselves.

269. I consider that each of the three propositions contained in the preceding paragraph is correct and that collectively and separately they do, to some extent, undermine GNIC’s case.

270. In addition, Mr Bloch relies on the GNC Group’s own perceptions of the GNC brand as one which is predominantly associated with sports nutrition. He relies on the comments of Mr Hennion which I have already mentioned and discussed (see paragraph 154 above). His closing written submissions also refer to a statement in November 2015 by Mike Archbold (the group’s then CEO) that GNC’s traditional brand position had been for “sports nutrition and performance”. The bundle reference which he gives does not contain, so far as I can see, such a statement; this point was not mentioned in Mr Bloch’s oral submissions. Accordingly, I ignore this alleged statement.

271. My conclusion is that it is unrealistic for GNIC to suggest that the perception of the GNC brand by consumers outside the UK will be affected by the viewing of television broadcasts of Tigers’ matches giving sight of banners, hoardings and signs containing the words “SPORTS NUTRITION”. But even if that is putting matters too high, I do not consider that the breaches of the LA which took place as a result of the use of those words in that way were material within the meaning of clause 5(2)(a) of the LA. GNC Group has clearly, in my view on the evidence, been content to promote its sports nutrition business. It says that it has only done so by using sports nutrition brands in conjunction with the GNC wellness umbrella. If H&B had taken the same course, then although it would nonetheless have been in breach of the LA (by

incorporating an alpha addition in the GNC mark), such a breach would not have been a material breach. I do not consider that the absence of reference to the wellness umbrella by H&B when using GNC SPORTS NUTRITION turns a non-material breach into a material one.

272. By parity of reasoning, I do not consider that the mere use of kit or replica kit or T-shirts containing GNC SPORTS NUTRITION by players when taking part in promotional activities whether in the UK or overseas or when giving interviews, gave rise to a material breach of the LA.
273. That leaves for consideration the outstanding issue in relation to the replica kit including T-shirts to which I said I would return. The issue here arises because such items have been manufactured by Canterbury Clothing (pursuant to order placed by Kitbag) and sold by Kitbag at the Club store and through its online shop acting pursuant to agreements with the Club, agreements which *vis a vis* H&B, the Club was authorised to enter into by H&B. The grant of sub license to the Club under the Sponsorship Agreement and the subsequent manufacture and sale of replica kit and T-shirts are, it is alleged, breaches of the terms of the LA. As it happens, the replica kit and T-shirts bore the words “SPORTS NUTRITION” in conjunction with GNC, but the complaint by GNIC would be the same (albeit that it can be made more forcefully in the light of the actual wording) even if the GNC mark alone had been used.
274. In addressing this issue, I refer again to the permitted use of the marks under the LA. I have already referred to the definition of “Use or Used”; included is the “promotion and marketing of products”.... in relation to the Sale of Products... by or on behalf of [H&B] and any Sublicensees”. None of the Club, Kitbag or Canterbury Clothing was a Sublicensee as defined. Clearly, however, H&B was entitled to advertise and promote the products and in doing so use would have to be made of the GNC marks. Although advertisements and promotion might be carried out by third parties, and although the GNC mark might appear in, for instance, local or even national newspapers, the resulting promotion or advertisement would be conducted or placed “by or on behalf of” H&B so that such use of the mark would be within the definition of “Use or Used”.
275. One common form of promotion or advertisement is the use of carrier bags in which customers carry away the goods they have purchased. That might fall within that part of the definition of “use and Used” which I have just quoted, or it might fall under a different limb, namely the use of any packaging in the distribution and marketing of Products. There is nothing in the LA which would preclude a charge being made to the customer for such a carrier bag; indeed, a charge for plastic bags now has to be made as a matter of law by retailers of a certain size. It will, however, be a matter of fact and degree whether the item concerned is genuinely provided by way or marketing, promotion or packaging or whether it is in reality the sale of a product which is not authorised by the LA. As Mr Baldwin says, the fact that a person has a licence to sell Nike shoes does not entitle him to sell a hand-bag with the Nike mark on it. To take another example, suppose that GNC UK had decided to promote its sports nutrition products by giving customers spending a specified minimum amount of money a free flask from which to drink while running, a flask embossed with the GNC mark. That would, in my view, clearly be use of the mark, but it would be a permitted use under the first limb of the definition of “Use and Used”. Although the manufacturer of the flask would not be a Sublicensee, it is in my view implicit in the



power to promote and advertise that H&B would be entitled to contract with a manufacturer for the supply of the flasks. In contrast, if identical flasks were to be put on sale in GNC shops, that would not be within the definition since a flask is not a Product as defined and the sale could not sensibly be described as a promotional activity in relation to Products.

276. As well as the permitted “Use” of the marks, regard must be had to clauses 2.2 and 3.1(e) of the LA which preclude the grant of a sub-licence of the rights granted by the LA (other than to a Sub-licensee) without the consent of GNIC (not to be unreasonably withheld or delayed). By clause 4.1 of the Sponsorship Agreement H&B grants to the Club a licence to use and to grant rights to use the GNC marks although this is only for the purposes which I have set out at paragraph 199 above. Although the relevant marks are three versions of “GNC” identified in the Sponsorship Agreement (and so does not include any other mark which happens to include “GNC”, such as GNC SPORTS NUTRITION), it is clear that the use of GNC SPORTS NUTRITION was authorised by H&B; indeed, as I have already noted, the design for the replica kit was actually provided by H&B.
277. The grant under clause 4.1 of the Sponsorship Agreement was, in my judgment, a clear breach of clauses 2.2 and 3.1(e) of the LA. However, so far as concerns the purposes set out at clauses 4.1.1 and 4.1.2 of the Sponsorship Agreement, I do not consider that the breach was a material breach:
- i) Clause 4.1.1 specifies as a purpose the implementation and delivery of the Sponsorship Rights. For present purposes, those are H&B’s naming rights in various locations in the stadium. This clause is not concerned with replica kit and T-shirts. H&B retains control of how the naming rights are exercised. If, on the one hand, H&B were to exercise the rights in a way which did not breach the LA (for instance by using GNC rather than GNC SPORTS NUTRITION) it is immaterial that it has licensed the Club to use the mark so as to give effect to those naming rights. Just as with any advertising, it is implicit that the person showing the advertisement is able to do so without thereby infringing the mark.
  - ii) Clause 4.1.2 specifies as a purpose inclusion in the Club’s non-commercial presentation. I do not know if, and if so how, the Club has actually used the marks for this purpose; if it has, no specific complaint is pursued. It is not easy to see how the grant of this right could be viewed as a material breach of the LA and in my judgment it is not.
  - iii) In any case, consent to a sub licence to the Club for those two purposes could not be unreasonably withheld: see clause 2.2 of the LA. If and insofar as a sub-licence is needed at all in relation to the first purpose, I do not think that consent could reasonably be refused (in relation, of course, only to an implementation of the Sponsorship Rights which did not infringe the LA). So far as concerns the second purpose, again I do not see how consent could reasonably be refused, it being implicit that the Club would make only reasonable and proper use of the marks.
278. The area for dispute, it seems to me, is confined to the third purpose, found in clause 4.1.3 of the Sponsorship Agreement. I do not know the scope of the Club’s licensing

programme. Nor do I know anything about the commercial arrangements between the Club and Kitbag or between the Club and Canterbury Clothing or between Kitbag and Canterbury Clothing other than that Canterbury Clothing has a licence (from either Kitbag or the Club) to include the GNC mark in its manufacture of the replica kit and T-shirts and that Kitbag has a licence to sell the replica kit and T-shirts with that mark. On a point of detail, clause 4.1 of the Sponsorship Agreement licenses the use of GNC not of GNC SPORTS NUTRITION. That may also be the case in relation to the sub-licensing to Kitbag and Canterbury Clothing. However, it is clear that H&B itself authorised the use of GNC SPORTS NUTRITION and cannot argue that it is not responsible for that use to escape liability under the LA.

279. In my earlier discussion of the meaning of “material” within the meaning of clause 5 of the LA, I said that the materiality of the breaches of clause 3.1(d) was to be assessed against the actual use of the unauthorised alpha or graphic addition. Similarly, I consider that the materiality of a breach of clauses 2.2 and 3.1(e) is to be assessed against the actual use made of the unauthorised sub-licence. Thus suppose that before any of the replica kit and T-shirts had actually been manufactured, GNIC had learned of what H&B and the Club were intending to do, that GNIC had complained and that, in the face of the complaint, H&B and the Club had decided not to proceed with a proposal which involved sale of replica kit and T-shirts. In those circumstances, the grant of the licence to the Club would nonetheless have been a breach of clauses 2.2 and 3.1(e) but it would, in my view, have been a breach with no consequence; it could not sensibly be viewed as a material breach.
280. The correct approach, in my view, is therefore to consider not only the fact of the making of the Sponsorship Agreement but also the way in which the parties proceeded in the manufacture and sale of replica kit and T-shirts. H&B’s position is that this was simply promotional activity which was (or at least would have been, if only GNC, rather than GNC SPORT NUTRITION had been used) permitted under the LA. I am willing to accept that, from H&B’s perspective, the use of the mark on the replica kit and T-shirts was purely promotional. Indeed, the whole Sponsorship Agreement was promotional. H&B itself gained no financial benefit from the sale of replica kit and T-shirts – it took no share of any profit and received no commission.
281. That, it seems to me, is not a complete answer to GNIC’s complaint. The complaint is not that H&B is making money by the sale of the replica kit and T-shirts. Rather, it is that someone else is doing so, namely some or all of the Club, Kitbag and Canterbury Clothing. The GNC mark is being used not simply for promotional purposes by H&B, but is being used as a mark on products which are for sale in a situation where there is no licence from the trade mark proprietor to use the mark on those products. GNIC would argue that the position is no different from that which would obtain if H&B itself had acquired T-shirts for sale bearing the GNC mark. If that were the position, GNIC’s case would be that there was clearly a material breach of the LA since H&B would be selling products under the GNC mark which, not being within the definition of Products in the LA, it had no licence to sell. As Mr Baldwin puts it, although accepting that Kitbag’s use of the GNC marks serves to advertise the GNC SPORTS NUTRITION brand to the public by its prominent display on the replica kit and T-shirts, the use of that mark also creates an outlet for the goods from which Kitbag profits - people are buying the products in whole or in

part because they bear the GNC SPORTS NUTRITION logo, since that is part of the kit that they are buying a replica of.

282. Further and in any event, Mr Baldwin relies on the evidence of Ms Hobbs to the effect that a product such as a T-shirt “is of value to customers because it is useful to them for example in their training regime”. He submits that such products have an inherent sales value, and that H&B is taking advantage of that value by selling the products under the mark and thereby creating an outlet for them. Thus in accordance with the reasoning set out in *Silberquelle GmbH v Maselli-Strickmode GmbH* [2009] ETMR 2 [17] – [21], the use of the mark on these products is genuine trade mark use. It is not, of course, correct that H&B is selling the replica kit and T-shirts or that it is taking advantage, other than a promotional advantage, of that value; it is correct, however, that some or all of the Club, Kitbag and Canterbury Clothing are doing so.
283. Clearly, the sale of replica kit and T-shirts, in contrast with free provision to Tigers’ fans, is a significant factor in assessing the materiality of the breach occurring as a result of the grant of the licence under clause 4.1.3 of the Sponsorship Agreement. H&B cannot, in my view, hide behind the fact that, from its perspective, the whole Sponsorship Agreement (including the sale of replica kit and T-shirts) is purely promotional. It can be in no better a position, in my judgment, than if it had been selling the replica kit and T-shirts itself.
284. The question, then, is whether in all the circumstances of the case, the breach is material. I have already held that the use of GNC SPORTS NUTRITION rather than simply GNC of itself is not a material breach of clause 3.1(d) of the LA. The determinative issue at this stage of the argument is whether the sale of replica kit and T-shirts results in a material breach of the LA. However, having said that H&B can be in no better a position than if it had been selling the replica kit and T-shirts itself, the position is not to be precisely equated with the sale in GNC shops or online of rugby kit and T-shirts which happen to have the GNC logo on them. This is a sale in a specific market targeted at Tigers’ fans with the selling point being the replication of actual kit and the colours of the team.
285. I have found this a very finely balanced issue. When discussing alpha additions and breach of clause 3.1(d) of the LA, I noted that the question of materiality of the breach is not the same as that of materiality of the addition. Similarly, in the context of clause 3.1(e), the question of materiality of the breach is not the same as that of the materiality of the potential extent of the infringing sub-licence. Given my view of the approach to materiality discussed at paragraph 250 above, I do not consider that the breach of clause 3.1(e) is material within the meaning of clause 5. In my judgment, there has been no damage to the GNC mark as a result of the sale of replica kit and T-shirts. The potential economic loss suffered by the trade mark proprietor, which might have negotiated for some payment if its consent had been sought to the use of GNC on replica kit and T-shirts which were offered for sale, is likely to be modest and can be compensated for by damages.
286. My overall conclusion, therefore is that the breaches by H&B of the LA are not material breaches within clause 5 of the LA.

### **Whether breaches remediable and if so whether remedied**

287. As a matter of fact, all of the breaches have now been remedied for the future in that the GNC UK business has been rebranded under the MET-Rx banner so that GNC SPORTS NUTRITION no longer appears anywhere (subject to the possible exception of replica kit and T-shirts which may still be available for purchase from certain sources). I do not have, or cannot now find in the material before me, information to show whether there was any use of the GNC SPORTS NUTRITION mark after expiry of the relevant notice under clause 5.2(b). I cannot express even an *obiter* view on whether the breaches have been remedied within the 60-day period.
288. What I can do is express my view that, in referring to a breach being capable of remedy, clause 5.2(b) is not concerned with a financial remedy by way of damages or an account of profit. The remedy with which the clause is concerned is (a) for the future, the elimination of any further breach and (b) for the past, to put, so far as possible, matters back to where they would have been but for the breach.

### The Unused Marks

289. The Unused Marks comprise the following:
- i) UK 1468996 for the device (the Silhouette device):



- ii) UK 2263388 for the device:



- iii) CTM 183475 for the device:



- iv) UK 1468832 for the device:



v) UK 2101307 for the device:



290. GNIC contends that H&B has not used the Unused Marks for a period of more than 5 years. H&B contends otherwise. On the assumption, contrary to my principal finding, that GNIC was entitled to serve the Notices as equitable assignee, H&B contends that the use of the GNC mark by it constituted use of the Unused Marks for the purposes of clause 5.6 of the LA. If that is wrong, then H&B contends that GNIC is not entitled to use the Unused Marks in the UK so long as its licence under the LA subsists in relation to the GNC mark.

#### **Unused Marks – use of GNC constitutes use of other marks**

291. H&B's case on the first point (use of GNC constitutes use of the other marks) is that the use of the GNC mark is, as a matter of trade mark law, capable of constituting use of each of the General Nutrition Centers Oval Mark, the General Nutrition Centres Live Well Mark and the General Nutrition Center Mark. Mr Bloch correctly states that as a matter of trade mark law it is possible to use a mark without using all the integers of the mark provided that the use on which reliance is placed captures its distinctive features. He expands on the EU case law concerning how to determine whether or not a particular use does capture the distinctive features, including reference to Case C 553/11 *Rintisch* [2013] Bus LR 318, *Hyphen GmbH v EUIPO* at [30], Case T-135/04 *GfK AG v OHIM* at [35], Case T-414/09 *Henkel v OHIM* and Case T-46/13 *Saborres de Navarra v OHIM*). It is, as he says, for me to decide on the material before me whether or not the use of GNC is sufficient to constitute use of the Unused Marks and, in the absence of, for instance, survey evidence this is going to be a matter of impression.

292. That impression, he would say, should be informed, in the case of each of the General Nutrition Centers Oval Mark, the General Nutrition Centres Live Well Mark and the General Nutrition Center Mark by the feature that each of them has, as its dominant distinctive element, the letters "GNC". Each of them has a further element which,

from a trade mark law perspective, may be regarded as trivial or descriptive. On that basis, use of the GNC mark also constituted use of the variant mark. He suggests that the same logic leads to the conclusion that there has been use also of the Silhouette Mark and the GNC HERBAL PLUS Mark.

293. Both Mr Bloch and Mr Baldwin have referred, in this context, to article 15(1)(a) of Council Regulation 207/2009 which provides that use (for the purposes of resisting revocation) includes:

“use of the Community trade mark in a form differing in elements which do not alter the distinctive character of the mark in the form in which it was registered”

294. Although different minds could take different views on this question, I consider that use of GNC did not constitute use of any of the Unused Marks. I consider that use of GNC on its own alters the distinctive character of the Unused Marks. This is clear I think in relation to the so-called Silhouette mark and the GNC HERBAL PLUS mark and the contrary is not, I think, seriously contended by Mr Bloch. It is also the case in relation to the other three marks, although the contrary is most strongly arguable (and here the balance is fine) in the case of the General Nutrition Centers Oval Mark.

#### **Unused Marks – GNIC not entitled to use the marks notwithstanding termination of H&B’s licence in respect of them**

295. H&B’s case on the second point (GNIC not entitled to use the Unused Marks notwithstanding termination of H&B’s licence in respect of them) is that the additional elements, beyond the letters GNC, are not the predominant elements in the Unused Marks. Mr Bloch’s submissions are these: The predominant element is the letters “GNC”. H&B will continue to enjoy an exclusive licence (even as against GNIC) to use the remaining marks (that is to say, marks in respect of which the licence has not been terminated) under clause 2.1 of the LA. Whether or not GNIC is permitted to use the Unused Marks will therefore depend upon whether or not the use of such marks would breach the exclusivity of the LA in respect of the remaining marks, since, whilst they may have weakly distinctive components in addition to “GNC”, “GNC” is the principal distinctive element of the marks. GNIC cannot be entitled to such use: to deploy the unused marks would cause substantial confusion and be misleading to the public, and would cause substantial damage to H&B, its enjoyment of the GNC marks, and their associated goodwill, under the LA. Such use would again infringe the exclusivity of the licence under clause 2.1 of the LA and the implied covenant of non-derogation from grant.
296. GNIC, in contrast, contends that there can be no such limitation on the use that can be made of the terminated marks since any such limitation would prevent it, as proprietor, from ensuring that the unused marks were not vulnerable to revocation. One might wonder what other purpose clause 5.6 is intended to serve and why the period of 5 years is specified in clause 5.6 of the LA. The obvious candidate for a purpose is that the purpose is precisely to allow GNIC to take steps to prevent revocation and that the 5-year period is specified because that is the period after which vulnerability to revocation arises; and it is difficult to think of any other purpose. Mr Bloch agreed when I suggested to him that the purpose of clause 5.6 was to avoid the risk of the mark being removed from the register.

297. It can be said that there is therefore a tension between clause 2.1 and clause 5.6. In my judgment, that tension is to be resolved in favour of GNIC's conclusion concerning the unused marks, namely that GNIC is entitled to use the marks once the licence in respect of them has been terminated under clause 5.6 of the LA. It is relevant to note that the LA not only granted a licence over the marks set out in Schedule 1 to the LA (which were, so far as I am aware, all of the marks which GNC had ever used in the UK) but that it also granted, under clause 2.4, a similar licence in respect of any additional marks containing "GNC" or "General Nutrition Center" which GNIC sought to register. Accordingly, GNIC could not, by seeking to register, or by obtaining the registration of, an additional mark, use that mark to market goods in the UK because H&B would automatically have an exclusive licence in respect of the additional mark.
298. Clearly an exclusive licence over a mark (whether a mark originally licensed or an additional mark) would preclude GNIC from using it during the currency of the exclusive licence. But this is not because there would be any trade mark infringement or passing off as a result of such use but because it is necessarily implicit in the grant of an exclusive licence that the licensor will not itself use the licensed mark. When the licence over a particular mark is terminated, the necessary implication falls away. It is not, however, necessarily implicit in the grant of the GNC mark that GNIC will not make use of any other mark, such as GNC Herbal Plus; such an implication is entirely unnecessary because it is the exclusive licence of the other mark (such as GNC Herbal Plus) which prevents use of that mark. The possibility of confusion does not, in my view, make it necessary to imply into the LA a prohibition on GNIC using the mark over which the licence has terminated.
299. The position may be different in relation to the use by GNIC of a mark incorporating "GNC" where there has been no attempt to register the mark. In those circumstances, H&B would have no exclusive licence from GNIC to use the mark (any more than it had a licence to use its own mark, "GNC SPORTS NUTRITION"). The use of such a mark might well (it is unnecessary for me to decide) be a breach of the terms of the exclusive licence of "GNC" since the exclusive licence is all that H&B would have on which to base a claim. The important difference between that case and the case of the Unused Marks is that clause 5.6 of the LA has no application to the former. In contrast, H&B can prevent use of a mark over which it does have a licence by enforcement of the exclusivity of that licence. It is implicit, to repeat, in the exclusive licence of that mark that its use by GNIC can be prevented.
300. I do not accept Mr Bloch's submission that the Unused Marks are not themselves vulnerable (or any more vulnerable) to revocation for non-use, because GNIC could rely upon having a proper reason not to use the marks: namely that to do so would derogate from the exclusivity of the grant in respect of the remaining marks. I do not accept that argument because it is apparent to my mind that clause 5.6 was included because the draftsman perceived that there would be at the very least a risk of revocation after 5 years' non-use. And even Mr Bloch accepts that the purpose of clause 5.6 was to avoid the risk of the mark being removed from the register (see paragraph 296 above). The clause would not achieve its intended purpose if it means what Mr Bloch says it means. Quite apart from that, it is to my mind very doubtful that Mr Bloch is right when he says that GNIC would have a defence to a revocation claim based on establishing a proper reason not to use the marks.

301. Mr O'Connor accepted (and I find as a fact) that to launch products in the UK under the GNC Herbal Plus brand (as was envisaged by the GNC group) could well create confusion in the minds of the public between GNC Group and H&B. That might be seen as an undesirable consequence of the construction of clause 5.6 for which GNIC argues. But that potential confusion is a consequence of the agreement which the parties have entered into. Given a choice between a construction which precludes GNIC from using the marks in order to prevent revocation (and thus defeats the intended purpose of the provision) and one which runs the risk of bringing about a situation giving rise to confusion, I prefer the latter.
302. I do not consider that there is any scope for the application of some suggested implied derogation from grant in this context. Clearly, any such term, even if one is to be implied, cannot result in inconsistency with the express terms of the LA. The express terms permit GNIC to terminate the licence over marks which remain unused for 5 years. Once it has been decided as a matter of construction that the effect of that is to permit GNIC to use the marks, there is no scope for an implied term which results in prohibition of that use. That is not to say that the undesirable consequence of GNIC's construction (*ie* potential confusion) is to be ignored: quite the contrary, since it is a factor to be taken into account in arriving at the true meaning of clause 5.6. But once that meaning has been ascertained, the use of the marks by GNIC cannot be relied on as a breach of some implied term.

#### **Unused Marks – use by GNIC giving rise to trade mark infringement or passing off**

303. Trade mark infringement and passing-off afford H&B no remedy in relation to the Unused Marks. An infringement action in relation to the "GNC" mark (in contrast with a breach of contract action under the LA for breach of the exclusive licence which, for reasons given already, it not available either) does not lie against GNIC as registered proprietor.
304. As to a passing-off action Mr Baldwin relies on the fact that goodwill derived from the marks belongs to GNIC under clause 3.2 of the LA. Since the goodwill belongs to GNIC, an action to protect that goodwill – which is what a passing-off action is – cannot lie against GNIC as the owner of it. That may be so, but it is not a complete answer. H&B has a business which it is entitled to protect. In the conduct of that business, it has an exclusive licence over the GNC mark. Use by GNIC of one or more of the Unused Marks could, in theory, cause damage to the business which H&B is entitled to carry on. It might be thought, therefore, that H&B would be entitled to bring an action based on passing-off. It seems to me, however, that the question here is the same question as that which I have discussed in relation to clause 5.6. Just as it is not implicit in the grant of the exclusive licence over GNC that use cannot be made by GNIC of an Unused Mark, so use of an Unused Mark will not give rise to a right in H&B to prevent the use of the Unused Mark under the guise of a passing-off action.

#### **Unused Marks – conclusion**

305. In summary, if the licence of a particular Unused Mark is terminated, there is nothing, in my judgment, in the LA which prevents its future use by GNIC: H&B will have no right to prevent the use of such a mark by way of an action for breach of the terms of the LA, for passing-off or for trade mark infringement.



## The Counterclaim

306. The Counterclaim claims, first, declaratory relief. The first declaration sought is to the effect that no notice of assignment of the LA by GNIC Arizona Old Co to GNIC has been given and therefore that none of the Notices is valid. H&B has succeeded on this issue and is in principle entitled to the declaration sought. The other declaratory relief sought goes beyond that to which H&B is entitled in the light of my conclusions about the construction of the LA and the breaches of it alleged by GNIC. I will consider making alternative declarations if H&B formulates appropriate wording in the light of my conclusions in this judgment.
307. The second part of the Counterclaim is a claim in relation to alleged threats. Mr Bloch has blown hot and cold, or at least warm and cool, on this. In paragraph 113 of his closing submissions he states the H&B maintain the Counterclaim in relation to the threatened use of the Trade Marks and the disruption and damages caused to GNC UK's business by the complaints of GNIC. Then, at paragraph 114, he says this:
- “Having reflected upon the evidence, H&B does not pursue its claim in relation to the Threats (at ¶¶342 to 367 of its opening submissions) in its own right, though it asks the Court to take notice of the correspondence, upon which the threats claim was factually founded, as one relevant factor, to the extent that it is necessary to consider H&B's bad faith claim.”
308. It is therefore only to that limited extent (the third part of the Counterclaim) that the alleged threats have any part to play.
309. The third part of the Counterclaim relates to an asserted implied obligation of good faith. Mr Bloch did not have anything to say about this in his closing oral submissions. His written closing submissions relied on his written opening submissions in which it was contended that the parties to the LA owed each other a duty of good faith, to be implied on the facts having regard to the principles set out in *Yam Seng Pte v International Trade Corp Ltd* [2013] EWHC 111 (QB), [2013] 1 CLC 662 (“*Yam Seng*”).
310. It is alleged that, by a combination of the Threats, the service of the First to Fifth Notices, and the alleged issuing of unreasonable directions, GNIC has systematically purported to exercise its rights under the LA with a view to depriving H&B of the benefit of the licence. GNIC has so acted on a contrived basis and for the ulterior motive of (i) preventing H&B from legitimately operating the GNC UK business and (ii) permitting the GNC Group, through Discount Supplements, to exploit the Trade Marks, having now re-entered the UK market.
311. GNIC denies that any such duty is owed under the LA as is clear from their pleaded case and from Mr Baldwin's written and oral closing submissions. It is clear, as Mr Baldwin submits and as Mr Bloch appears to agree, that there is no principle, in English law, that a duty of good faith is to be implied into commercial contracts. That is the conclusion which Leggatt J reached in *Yam Seng* after a review of the authorities and consideration of developments in Scottish law and other common law jurisdictions, and notwithstanding the long standing nature of the principle in civil law jurisdictions, as well as in the United States: see the judgment at [120] to [131].

312. Nonetheless, it remains open to the Court to imply such a duty as a contractual term in accordance with the established principles for implying contractual terms. As Mr Baldwin accepts, it is possible to imply a duty of good faith where the context demands it. In that context, Leggatt J pointed out that any contract had to be construed in its relevant context of social norms of honesty and understanding. Thus there is an expectation of honesty in all contracts: see for instance Lord Bingham in *HIH Casualty v Chase Manhattan Bank* [2003] 1 CLC 358, at [15]:

“Parties entering into a commercial contract...will assume the honesty and good faith of the other, absent such an assumption they would not deal.”

313. Leggatt J also referred to other standards of commercial dealing which were so generally accepted that the contracting parties would reasonably be understood to take them as read without explicitly stating them in their contractual document: see at [139]. After giving further examples, he said this:

“What good faith requires is sensitive to context. That includes the core value of honesty....”

314. And then, at [142], he went on to consider relevant background expectations extending to an expectation that the parties will share information relevant to the performance of the contract such that deliberate omission to disclose such information may amount to bad faith. He identified a sharp dichotomy between certain situations where the parties owed onerous obligations to each other (*eg* fiduciary relationships) and other contractual relationships where no duty of disclosure is supposed to operate. It was in that context – disclosure – that he went on to say this:

“Arguably, as least, that dichotomy is too simplistic. While it seems unlikely that any duty to disclose information in the performance of a contract would be implied where the contract involves a simple exchange, many contracts do not fit this model and involve a longer term relationship between the parties which they make a substantial commitment. Such “relational” contracts, as they are sometimes called, may require a high degree of communication, cooperation and predictable performance based on mutual trust and confidence and involve expectations of loyalty which are not legislated for in the express terms of the contract but are implicit in the parties’ understanding and necessary to give business efficacy to the arrangements. Examples of such relational contracts might include some joint venture agreements, franchise agreements and long-term distributorship agreements.”

315. Mr Bloch cited, and relies on, the part of that citation beginning with “Such ‘relational’ contracts...” without putting those words in the context of the preceding words which, in my view, very much colour what the judge was saying. That said, *Yam Seng* has been considered in later cases which I should mention:

- i) In *Compass Group UK and Ireland Ltd (t/a Medirest) v Mid Essex Hospital Services NHS Trust* [2013] EWCA Civ 200, [2013] BLR 265, Jackson LJ at [105] recognised that there is no general doctrine of good faith in English law, although a duty of good faith is implied as an incident of certain categories of contract, referring to *Horkulak v Cantor Fitzgerald International* [2004] EWCA Civ 1287, [2004] IRLR 942 (an employment law case regarding the implied duty of trust and confidence between employer and employee) and to *Yam Seng* at [120] to [131].
  
- ii) In *Globe Motors Inc v TRW Lucas Varity Electric Steering Ltd* [2016] EWCA Civ 396, the Court of Appeal had something to say about *Yam Seng*: see Beatson LJ at [67]. Mr Bloch submits that Beatson LJ in that paragraph treated *Yam Seng* as good authority for the proposition that a duty of good faith may be implied in contracts ‘involving a longer-term relationship between parties who make a substantial commitment’, involving a high degree of communication, cooperation and predictable performance. That is not quite what he said. I think that I need to set out that paragraph and part of the one following it:

“67. One manifestation of the flexible approach referred to by McKendrick and Lord Steyn is that, in certain categories of long-term contract, the court may be more willing to imply a duty to co-operate or, in the language used by Leggatt J in *Yam Seng PTE v International Trade Corp Ltd* [2013] EWHC 111 (QB) at [131], [142] and [145], a duty of good faith. Leggatt J had in mind contracts between those whose relationship is characterised as a fiduciary one and those involving a longer-term relationship between parties who make a substantial commitment. The contracts in question involved a high degree of communication, co-operation and predictable performance based on mutual trust and confidence and expectations of loyalty "which are not legislated for in the express terms of the contract but are implicit in the parties' understanding and necessary to give business efficacy to the arrangements". He gave as examples franchise agreements and long-term distribution agreements. Even in the case of such agreements, however, the position will depend on the terms of the particular contract. Two examples of long-term contracts which did not qualify are the long-term franchising contracts considered by Henderson J in *Carewatch Care Services Ltd v Focus Caring Services Ltd and Grace* [2014] EWHC 2313 (Ch) and the agreement between distributors of financial products and independent financial advisers considered by Elisabeth Laing J in *Acer Investment Management Ltd and another v The Mansion Group Ltd* [2014] EWHC 3011 (QB) at [109].

68. This is not the occasion to consider the potential for implied duties of good faith in English law because the question in this case is one of interpretation or construction, and not one of implication. It suffices to make two observations..... The second is that, as seen from the *Carewatch Care Services* case, an implication of a duty of good faith will only be possible where the language of the contract, viewed against its context, permits it. It is thus not a reflection of a special rule of interpretation for this category of contract.”

- iii) The recent decision of *National Private Air Transport Services Company (National Air Services) Limited v Credittrade LLP* [2016] EWHC 2144 (Comm), Judgment of 24 August 2016, is relied on by Mr Bloch. He relies on [135] where Blair J referred to *Globe Motors* and again affirmed that *Yam Seng* was good authority. It is to be noted, however, that on the facts of that case, Blair J accepted that the contract in that case was not a “relational” contract in the sense that that phrase was used in *Yam Seng*. He regarded the contracts before him as “conventional contracts in which the parties’ relationship is legislated for in the express terms of the contract” (a reference to *Yam Seng* at [143]).

316. According to Mr Bloch, the basis for the implication of a good faith obligation in the LA is, taking almost verbatim from his written opening submissions, as follows:

- i) the LA is of potentially perpetual duration, subject to the provisions of clause 5;
- ii) although the Licensor retains very limited control over the exploitation of the marks, there are a variety of respects in which the parties are expected to communicate and cooperate on an ongoing basis. In particular, the parties are required to combine and cooperate in the protection of the marks, under clauses 4.1 to 4.3 of the Licence Agreement;
- iii) the agreement is one of trust, insofar as the Licensor holds the goodwill in the marks on behalf of, and for the benefit of, the Licensee for the duration of the agreement;
- iv) the parties owe each other express ongoing duties of confidentiality under clause 9 of the Licence Agreement;
- v) the acquisition and operation of the GNC UK business is dependent upon the exercise by the Licensor of its rights under the LA in good faith. As is demonstrable from the conduct of GNIC, the exercise of such rights in bad faith is capable of seriously disrupting the operation of the GNC UK business and curtailing its future development; and
- vi) such a duty is consistent with, and does not conflict with, the express provisions of the Licence Agreement.

317. The LA accordingly falls within the category of “relational” contracts described by Leggatt J in *Yam Seng* in which the implication of such a term will be appropriate (absent express words to the contrary).
318. GNIC’s case, in both its opening and closing written submissions, is that H&B’s case is tantamount to saying that the Court will always impose on parties to an agreement a general obligation of good faith. It is accepted that the LA is (potentially) long-term, but objected that that alone cannot possibly be enough to imply a duty of good faith. The suggestion that the LA is a “relational” one is said to be extraordinary: if the terms of the LA are complied with by H&B then there may be no need for any communication between the parties at all. Further, it is acknowledged that clause 3.1 provides that H&B shall observe all reasonable directions given by GNIC, but the use of the word ‘reasonable’ is said to negate any need for an additional obligation of good faith.
319. In his closing submission, Mr Bloch modifies that position to some extent. He there acknowledges the force in the submissions on behalf of GNIC which I have just recorded. This is said to be “in the light of the fact that GNIC had not attempted to argue that it has any basis on which to control the Products to which H&B chose to apply the marks, the price point at which they seek to seek such Products and/or the manner in which they seek to market or promote such Products”. Mr Bloch then says that if GNIC were arguing that it enjoys such control, then “the ingredients for a relational contract may well be made out”. In such a case, a number of factors are put forward (which I again take verbatim) to demonstrate that it is plain on the evidence that GNIC has breached any implied duty of good faith:
- i) the Notices, and the present proceedings, were issued in reliance upon a plethora of contrived allegations which cannot have been maintained sincerely and which GNIC has chosen not to pursue (or to pursue with any vigour) at trial;
  - ii) such conduct formed part of a wider strategy on the part of the GNC Group to re-enter the UK business under the GNC brand, and to force H&B to sell its business or become a franchisee. Pursuant to that strategy, GNIC was content, at the time the notices were served, to run any point that, in Mr O’Connor’s words, had (in their view) ‘an arguable colourable chance to prevail’;
  - iii) having put forward Mr Cupples in order to explain the commercial strategy of the GNC Group in respect of the UK, the motives of Mr Cupples, in the context of discussing the gnc.london domain name, were revealing:

“My personal view on that is, if we had at least something that we could control and portray in a similar manner, to at least have control and approval over and present the brand in a particular way that was consistent with the US, that could potentially force, at least Holland & Barrett/NBTY Europe, to move to something that was a level of consistency of what we had in the US, and then at least that would be a small win.”

- iv) the abuse by GNIC of whatever rights it may otherwise have under the Licence Agreement for such a purpose undermine the central object and effect of that agreement. This is to permit H&B to use the Trade Marks in the operation and development of the GNC UK business, which it bought free from the type of operational control, and vassal-like status, that the GNC Group now wishes to impose.
320. In his oral submissions, Mr Baldwin relied on his written submissions (which I have already referred to). But if, contrary to those submissions, an implied duty of good faith does arise, he submits that it has not been breached. He observes correctly that no allegation of bad faith was put to any of GNIC's witnesses. Mr Baldwin professes not to understand what it is alleged that GNIC has done which was in bad faith. He says it cannot be the issuance of these proceedings or the service of the Notices. He accepts that the Notices contained many alleged breaches which are not now relied on. That, he says, is because it was thought prudent to have a claim which covered a number of matters. However, the fact GNIC is now only focusing upon the use of GNC SPORTS NURITION as branding and the sub-licence to the Club is enough. I agree: to add some weak claims to what is genuinely perceived as a good claim is not to my mind a breach of any duty of good faith if it exists at all.
321. In my judgment, no general obligation of good faith is to be implied into the LA. I do not consider that the LA is a relational contract in the sense in which that term has been used in the cases. Although the LA is a long-term contract, it is one where there ought to be no need for any ongoing communication of the sort envisaged in the cases and required to enable the contract to operate effectively. In any case, even if the LA is relational in the required sense, it is not necessary to imply an obligation of good faith. Such control as GNIC has over the use of the marks is already subject to express provisions making an implied term in relation to those aspects unnecessary. I shall not attempt an exhaustive list, but the following are relevant:
- i) Clause 2.5: if GNIC does not want to take steps which might be needed to protect H&B's interests in relation to registration, it will assign to H&B the registrations for it to take steps to protect the registration.
- ii) Clause 2.6: this imposes an express obligation on GNIC to pursue opposition to applications for registration of marks which are the same or similar to the Trade Marks.
- iii) Clause 3.1(a): H&B is subject to some control under this clause but this is limited by the requirement that the Licensor's directions must be reasonable.
- iv) Clause 4.3: H&B is entitled to defend proceedings where GNIC fails to do so.
322. Clause 3 makes other provision for the manner of use by H&B of the marks. Those provisions were agreed to by H&B and appear to me at least to be reasonable provisions. Certainly, the possibility of holding H&B strictly to the letter of the restrictions would not be a reason for imposing any sort of implied obligation of good faith and, in any case, it is not easy to see how it would be a breach of any such implied duty to enforce those rights.
323. In my judgment, H&B's claim based on breach of an implied duty of good faith fails.

### **Summary of overall conclusions**

324. The Notices, having been served by GNIC and not by GNIC Arizona Oldco, were invalid, no notice having been given to H&B of the assignment of the LA to GNIC.
325. The Notices were, in any case, insufficiently certain to qualify as valid notices.
326. There has been no material breach of the LA.
327. There have been non-material breaches of the LA. I am unable to determine whether those breaches have all been remedied (where remediable) and, if they have, whether that was done within the 60-day time limit imposed by clause 5(2)(b).
328. There is no general duty of good faith to be implied into the LA. But even if there were, it has not been breached.