



Neutral Citation Number: [2022] EWHC 2391 (Comm)

Case No: CL-2019-000742

IN THE HIGH COURT OF JUSTICE
KING'S BENCH DIVISION
COMMERCIAL COURT

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 26/09/2022

Before :

CHRISTOPHER HANCOCK KC

Between :

(1) VIRGIN AVIATION TM LIMITED **Claimants**
(2) VIRGIN ENTERPRISES LIMITED

- and -

ALASKA AIRLINES, INC **Defendant**

Daniel Toledano KC and Joshua Crow (instructed by **Slaughter & May**) for the **Claimants**
Tom Weisselberg KC and Edward Ho (instructed by **Jones Day**) for the **Defendant**

Hearing date: Monday 12th September 2022

JUDGMENT

This judgment was handed down by the Judge remotely by circulation to the parties' representatives by email and release to The National Archives. The date and time for hand-down is deemed to be 10:30 on Monday 26th September 2022.

Christopher Hancock KC :

A1. Introduction and factual background.

1. On September 12 I heard an application to bifurcate the trial in this matter, which is scheduled to start on October 10 and run for 7 days. I indicated at the end of that application that I was refusing the application but that I would give detailed reasons later. These are those reasons.
2. The Claimants are part of the well-known Virgin group of companies (the “**Virgin Group**”). The Claimants are referred to hereafter for convenience as “**Virgin**”.
3. The Defendant (“**Alaska**”) is the legal successor to Virgin America Inc (“**Virgin America**”), as described in further detail below.
4. These proceedings concern a contract entered into between Virgin and Virgin America, a trade mark license agreement dated 19 November 2014 (the “**Current TMLA**”). The trade marks and names covered by the Current TMLA are referred to hereafter for convenience as the “**Virgin brand**”.
5. In simple terms, under the Current TMLA, Virgin granted a license to Virgin America to use the Virgin brand in connection with the operation of a US domestic airline. The scope of the license is tied in the Current TMLA to a defined term, the “**Licensed Activities**”.
6. In the course of Virgin America’s eventually successful certification process in 2006-2007 (a certificate being a necessary prerequisite to operating an airline in the US domestic market), the US Department of Transportation (the “**DOT**”) required that certain terms be included in the previous version of the TMLA. As a result of the DOT process, Virgin America and Virgin entered into a TMLA dated 9 April 2007 (the “**2007 TMLA**”). Virgin America was granted certification by the DOT in around May 2007.
7. In around 2014, the shareholders in Virgin America proposed an initial public offering of shares in Virgin America (the “**IPO**”). As part of the IPO, the parties renegotiated the 2007 TMLA, which led to several changes, including in particular the introduction of a minimum royalty payment (the “**Minimum Royalty**”). The Current TMLA was executed on 19 November 2014 as part of the IPO process. It includes an obligation (set out in clause 8) which, it is contended, requires Virgin America to pay at least the Minimum Royalty in each financial year of the Term which lasts until 2039. The dispute between the parties centres on these arrangements (the “**Minimum Royalty Claim**”).
8. In 2016, Virgin America was acquired by a competitor: Alaska’s parent company. Alaska’s parent company later announced its intention to cease using the Virgin brand. Alaska merged with Virgin America in 2018, with Alaska absorbing all of Virgin America’s rights and obligations. In around 2019, Alaska alleges that it ceased to use the Virgin brand, and refused to pay the Minimum Royalty, leading to this dispute.

A2. The disputes between the parties and the current application.

9. The principal issues in this case concern the interpretation of the Current TMLA. The parties have agreed a list of issues, which is annexed to this judgment. For present purposes, the most important issues in the list are Issues 3(1) and (2) and Issues 9(1)-(5).

It is these issues which the Defendant wishes to hive off for determination at a later date (the “**Proposed Carve-Out Issues**”).

10. The essential reason for the Defendant’s application arises from the issues which exist if Alaska is wrong so that ceasing to use the Virgin brand is a breach of clause 3.6 (the “**Clause 3.6 Claim**”). In those circumstances, Alaska argues that it has evinced a clear intention never to re-use the Virgin brand, i.e. a clear intention not to comply with the Current TMLA, which allows Virgin to exercise its contractual termination rights. Alaska argues that Virgin has no legitimate interest in refusing to exercise its contractual termination rights, and therefore it is effectively obliged to bring the contract to an end and claim loss of bargain damages from Alaska, and also obliged to mitigate its losses accordingly.
11. Virgin denies this for a number of reasons, including that the legitimate interest doctrine has no application in law to this situation. However, as a matter of fact, Virgin’s position is that it does have a legitimate interest in maintaining the Current TMLA. In this respect, Virgin’s case in summary is that: damages for loss of bargain would not be sufficient replacement for the damages it would be entitled to claim under clause 3.6 on a yearly basis because mitigation of the damage would be very difficult, and impossible to value, owing to the fact that Virgin would face a series of significant obstacles and risks if it sought to re-use the Virgin brand in the US domestic airline industry; Virgin would have to either start a new airline from scratch, acquire and invest in an existing airline, or license to an existing US carrier; each of these options would require significant investment, time and involve substantial risk; and, there would be significant uncertainty in any loss of bargain damages calculation; all these factors make it legitimate for Virgin to maintain the Current TMLA.
12. Virgin argues that, as a matter of analysis, the legitimate interest debate summarised above has given rise to a number of issues, as follows:
 - (1) Purely legal issues as regards the existence and applicability of the legitimate interest doctrine in principle (which, for the avoidance of doubt, have no relationship to the disputed facts of the case) (the “**Legal Issues**”). The Legal Issues are encompassed in 9(1) of the Agreed LOI;
 - (2) Issues concerning the risks and obstacles that Virgin would face if it sought to re-use the Virgin brand in the US domestic airline industry (the “**Obstacles**” and “**Obstacles Issues**”). These issues are encompassed in 9(3) of the Agreed LOI;
 - (3) Issues concerning intellectual property law in the US and other territories, and the risks to Virgin’s intellectual property which arise accordingly (the “**IP Risks**” and the “**IP Risks Issues**”). These issues are encompassed in 9(4) of the Agreed LOI;
 - (4) Issues as to the application of the legitimate interest doctrine and the principles of mitigation to the facts of the case, in view of the Obstacles and IP Risks (the “**Mixed Fact/Law Issues**”). The Mixed Fact/Law Issues are encompassed in 9(2) and 9(5) of the Agreed LOI.
13. However, Virgin argues that it is important to note that some of the Proposed Carve-Out Issues do not only arise in connection with the legitimate interest debate. Virgin also

relies on the Obstacles and the IP Risks in support of its arguments on construction in both the Minimum Royalty Claim and the Clause 3.6 Claim. In brief:

- (1) Virgin argues at paragraph 28(3) of the Amended Reply that the Obstacles mean that it would be difficult or impossible to re-use the Virgin brand in connection with the operation of a US airline in the event Virgin America ceased to use the brand, and that the parties would have been reasonably aware of the Obstacles at the time of the Current TMLA. This in turn makes it more likely that they would have agreed that the Minimum Royalty should remain payable in the event use were to cease for any reason. As a result, resolving the Minimum Royalty Claim requires the Court to also resolve at least a substantial part of the Obstacles Issues.
 - (2) Virgin argues at paragraphs 28(3) and 31(4) of the Amended Reply that clause 3.6 was intended to protect Virgin from the IP Risks. As a result, the Clause 3.6 Claim requires the Court to resolve the IP Risks Issues.
14. The essential reason for the current application is that Alaska says that, in the course of preparing its expert evidence on airline industry matters (discussed below), it discovered that Virgin had been acting in breach of its obligations under the Current TMLA. This assertion was first made on 22 June 2022, and the further procedural history of that allegation is set out in the next section of this judgment. The allegation, which I will refer to as the Breach Allegation relates to the activity of Virgin Atlantic Airways Ltd. (“**Virgin Atlantic**”). Virgin Atlantic is a company which is 51% owned by the Virgin Group but it is not a party to this litigation nor to the Current TMLA. Virgin Atlantic allows its loyalty customers – members of its ‘Flying Club’ reward scheme – to purchase flights operated by other (third-party) airlines using reward points, including flights operated by “**Delta**”, a US carrier. I was told that Virgin Atlantic’s Flying Club has been in operation for many years. Virgin America itself participated in the Flying Club programme for a period of time. Alaska now alleges that the sale of internal US flights operated by Delta through the Flying Club is an infringement of Alaska’s rights under the Current TMLA.

A3. Procedural history.

15. The proceedings were issued on 2 December 2019, after pre-action correspondence. The trial has been fixed since January 2021, following a CMC in November 2020. The parties have given disclosure on all the factual issues in the Agreed LOI.
16. Factual witness evidence has been prepared. Virgin has produced a factual witness statement from Allison Daniels, a Virgin Group employee, which is solely concerned with the Obstacles (including Virgin’s investigations into the possibility of re-using the Virgin brand in the US domestic airline industry).
17. Permission to adduce expert evidence on three distinct subjects was granted at the CMC. Two of those subjects concern the Obstacles Issues and the IP Risks Issues respectively. The third area is not relevant to the Application. The parties have agreed that the US IP law experts will not need to be cross-examined or give oral evidence. This leaves the Obstacles Issues. Virgin says that it considers that cross-examination of the airline industry experts is likely to be very short, if it is indeed required at all.

18. On 22 June 2022, Alaska raised for the first time the Breach Allegation that I have referred to above.
19. Following further correspondence, on 14 July 2022, Alaska provided a draft amended defence and counterclaim and requested permission to amend to add an allegation of breach of contract, and to introduce some elements of that allegation into the present trial. The relevant allegation in the draft pleading reads as follows:

“56A. On a true construction of the Current TMLA:

- (1) AAI is the exclusive licensee of the Marks in relation to the provision of the Licensed Activities by it, to the exclusion of all others subject to the exceptions defined in clause 3.2.*
- (2) Virgin Aviation must not grant any further licences to use the Marks in respect of the Licensed Activities.*
- (3) The Licensed Activities include all activities incidental to the right to operate an airline on any route for which all points of arrival and/or departure are within the Mainland Territory (as that term is defined in the Current TMLA) and all activities which would ordinarily be regarded as part of the business of an airline.*
- (4) The sale of tickets via AAI’s website to AAI’s actual or prospective customers for routes operated by another carrier for which all points of arrival and/or departure are within the Mainland Territory is a Licensed Activity.*

56B. Inconsistently with its obligations in Clauses 3.2 and/or 3.3 Current TMLA, Virgin Aviation licensed the Marks to Virgin Atlantic Airways Ltd (“Virgin Atlantic”) to (at the least) sell tickets via Virgin Atlantic’s website, using the Marks, to Virgin Atlantic’s actual or prospective customers for, at least some, routes operated by Delta Air Lines for which all points of arrival and/or departure are within the Mainland Territory. Pending disclosure, the full nature and extent of the license granted to Virgin Atlantic is unknown to AAI, and AAI reserves the right to provide further particulars following disclosure.

56C. Virgin Aviation by its conduct terminated the Current TMLA under Clause 3.7, alternatively if, contrary to AAI’s primary position, AAI/Virgin America was obliged to pay Virgin Aviation the Minimum Royalty even if it did not use the Names or the Marks in a given financial year, Clause 11.3 Current TMLA. Specifically:

(1) By commencing and pursuing these proceedings, Virgin Aviation validly gave AAI written notice that (a) AAI had ceased to use the Names and Marks in a material manner and/or (b) AAI was in material breach of the Current TMLA and required to remedy the breach.

(2) Licensing the Marks to Virgin Atlantic inconsistently with its obligations under the TMLA, was an unequivocal overt act by Virgin Aviation inconsistent with the subsistence of the Current TMLA. By that conduct Virgin Aviation therefore elected to, and did, terminate the Current TMLA under Clause 3.7 and/or 11.3 Current TMLA.

[56D. Further or alternatively, Virgin Aviation by its conduct in licensing the Marks to Virgin Atlantic has acted in a manner inconsistent with, and in breach of, the terms of the Current TMLA. Virgin Aviation has denied (by letter from its solicitors dated 4 July 2022) that the use of the Marks by Virgin Atlantic is inconsistent with, or in breach of, the terms of the Current TMLA and by letter dated [xx] has asserted that it will continue to act in the manner identified in paragraph 56B above. Virgin Aviation

has thereby evinced an intention no longer to be bound by the terms of the Current TMLA and is in repudiatory breach thereof. AAI hereby accepts that repudiatory breach.]¹

56E. Further or alternatively, if, (which is denied) Virgin has any claim for damages against AAI, then by acting in the manner set out in paragraph 56B above, Virgin has mitigated some or all of those losses that it may have suffered and AAI is entitled to set off those amounts earned by Virgin from those activities against any loss and damage that Virgin Aviation may be able to show that it has suffered.”

20. Virgin refused the request of 14 July 2022 by letter from its solicitors dated 2 August 2022. In summary, Virgin contended that it would be impossible to introduce new issues into the proceedings at such a late stage and only a few months prior to trial. In the event, by letter dated 15 August 2022, Alaska’s solicitors accepted that it was not possible to introduce the allegation of breach into the current proceedings and that that allegation would have to be determined, if at all, in a later trial.

21. On 27 July 2022, Alaska’s expert report was served. In that document, Alaska raised the following argument which, it is said, was triggered by the discovery of the facts said to underly the allegation of breach. The expert stated that:

“Given the close relationship between Virgin Group and Delta, I consider there would be no material obstacles to Virgin Group re-using the Names and Marks for the Licensed Activities with either VS or DL. Virgin Group could have, as they appear to have done, licensed the Names and Marks to VS to allow them to use them to sell Delta’s flights on their website (which I am told to assume would be one of the Licensed Activities for the purposes of the Current TMLA).”

22. In short, Virgin argues, Alaska appears to be suggesting that if Virgin were to terminate the Current TMLA, it could re-license the Virgin brand to another company, possibly Virgin Atlantic, which is not a US carrier but which would use the Virgin brand as a cover for selling Delta flights.

The legal test for bifurcation.

23. It was accepted by both parties that the decision as to bifurcation is essentially a case management one and hence is a matter for my discretion.

24. Both parties referred me, in this regard, to the helpful summary of potentially relevant considerations in *Electrical Waste Recycling Group Ltd v Philips Electronics UK Ltd* [2012] EWHC 38 (Ch) at [5]-[6], and recently summarised in *Daimler AG v Walleniusrederierna Aktiebolag* [2020] EWHC 525 (Comm) at [27], as follows:

“27. In [Electrical Waste Recycling](#), Hildyard J provided guidance in the form of a non-exhaustive list of relevant factors to take into account in considering whether to split the trial at [6]. The bracketed comments which follow are my own:

"Where the issue of case management that arises is whether to split trials, the approach called for is an essentially pragmatic one and there are various (some competing) variations. These considerations seem to me to include:

¹ This subparagraph of the pleading is conditional upon the response that AAI received to the letter covering its draft pleading. For present purposes this is not relevant.

[Factor 1] whether the prospective advantage of saving the costs of an investigation of quantum if liability is not established outweighs the likelihood of increased aggregate costs if liability is established and a further trial is necessary;

[Factor 2] what are likely to be the advantages and disadvantages in terms of trial preparation and management;

[Factor 3] whether a split trial will impose unnecessary inconvenience and strain on witnesses who may be required in both trials;

[Factor 4] whether a single trial to deal with both liability and quantum will lead to excessive complexity and diffusion of issues or place an undue burden on the judge hearing the case;

[Factor 5] whether a split trial may cause particular prejudice to one or other of the parties (for example by delaying any ultimate award of compensation or damages);

[Factor 6] whether there are difficulties in defining an appropriate split or whether a clean split is possible;

[Factor 7] what weight is to be given to the risk of duplication, delay, and the disadvantage of bifurcated appellate process;

[Factor 8] generally, what is perceived to offer the best course to ensure that the whole matter is adjudicated as fairly, quickly and efficiently as possible.

Other factors to be derived from the guidance given by [CPR Rule 1.4](#), which reflect a common sense and pragmatic approach, may include:

[Factor 9] whether a split trial would assist or discourage mediation and/or settlement and [Factor 10] whether an order for a split late in the day after the expenditure of time and cost might actually increase cost.

28. *The judge must undertake a "pragmatic balancing exercise" which requires assessing "how a case is likely to unfold according to whether or not there is a split" ([Electrical Waste Recycling](#) at [7])."*

25. In addition, Virgin referred me to a recent authority on late amendments, arguing that the current application amounted to an application to amend late in the day since, until any such application was made and granted, the issues which were relied on as justifying bifurcation were not in play. The authority in question was the decision of Carr J (as she then was) in *Quah Su Ling v Goldman Sachs* [2015] EWHC 759 (Comm) in which the judge said:

"38. Drawing these authorities together, the relevant principles can be stated simply as follows:

a) whether to allow an amendment is a matter for the discretion of the court. In exercising that discretion, the overriding objective is of the greatest importance. Applications always involve the court striking a balance between injustice to the applicant if the amendment is refused, and injustice to the opposing party and other litigants in general, if the amendment is permitted;

b) where a very late application to amend is made the correct approach is not that the amendments ought, in general, to be allowed so that the real dispute between the parties can be adjudicated upon. Rather, a heavy burden lies on a party seeking a very late amendment to show the strength of the new case and why justice to him, his opponent and other court users requires him to be able to pursue it. The risk to a trial date may mean that the lateness of the application to amend will of itself cause the balance to be loaded heavily against the grant of permission;

- c) a very late amendment is one made when the trial date has been fixed and where permitting the amendments would cause the trial date to be lost. Parties and the court have a legitimate expectation that trial fixtures will be kept;*
- d) lateness is not an absolute, but a relative concept. It depends on a review of the nature of the proposed amendment, the quality of the explanation for its timing, and a fair appreciation of the consequences in terms of work wasted and consequential work to be done;*
- e) gone are the days when it was sufficient for the amending party to argue that no prejudice had been suffered, save as to costs. In the modern era it is more readily recognised that the payment of costs may not be adequate compensation;*
- f) it is incumbent on a party seeking the indulgence of the court to be allowed to raise a late claim to provide a good explanation for the delay;*
- g) a much stricter view is taken nowadays of non-compliance with the [CPR](#) and directions of the Court. The achievement of justice means something different now. Parties can no longer expect indulgence if they fail to comply with their procedural obligations because those obligations not only serve the purpose of ensuring that they conduct the litigation proportionately in order to ensure their own costs are kept within proportionate bounds but also the wider public interest of ensuring that other litigants can obtain justice efficiently and proportionately, and that the courts enable them to do so.”*

The parties’ respective cases in outline.

- 26. I can summarise the parties’ respective arguments as follows, although I would not purport to seek to set them out exhaustively.
- 27. For Alaska, Mr Weisselberg KC submitted that a split trial was the pragmatic approach in this case because:
 - (1) The Defendant has only recently discovered, and could not reasonably have known earlier, that the First Claimant has permitted Virgin Atlantic to use the Marks on Virgin Atlantic’s website to market and sell US domestic two-point flights operated by Delta Airlines (in respect of which no admissions were made by the Claimants).
 - (2) The Defendant has (at the least) a good arguable case that by doing so the First Claimant is in breach of the Current TMLA;
 - (3) It is not possible to resolve the Proposed Carve-Out Issues without determining whether the First Claimant is in breach of the Current TMLA (and it is common ground that the Breach Allegation cannot be prepared and determined at the October trial);
 - (4) It will inevitably follow that it is not possible to determine, fairly or at all, the Proposed Carve-Out Issues at the forthcoming trial in October. Since those issues cannot be resolved in October, alternative arrangements must be made for them. The only options are either a split trial, as the Defendant proposes, or an adjournment of the entire trial until the breach of contract issue can also be decided.
 - (5) A split trial is much the better of those options, not least because:
 - (a) A clean split between the issues for the October trial and the Proposed Carve-

Out Issues is possible.

- (b) That split may result in the saving of costs (quantified at between £80,000 and £130,000), and at the very least will not significantly increase costs.
 - (c) The split will not inconvenience any of the witnesses or experts.
- (6) In addition, if Alaska won on the construction issues (i.e. Issues 1 and 2), then the further issues which Alaska seek to have hived off will never arise.
28. Mr Toledano KC, for Virgin, contended that Alaska had not established that it was appropriate to bifurcate the trial. In particular:
- (1) There was, on the current pleadings, an overlap between the construction issues and the breach issues. That point had been recognised by Alaska in correspondence and they had offered a concession for the purposes of the forthcoming trial to try to get over this. The concession however did not go far enough, although in his oral reply, Mr Weisselberg indicated that his clients were prepared to go further to meet Virgin's expressed concern. Virgin contended that the proposed split was unworkable.
 - (2) The case that Alaska now wished to run was a fundamentally different case from that which they were originally running. They had therefore to apply for permission to amend. It was far too late for such an application, which had in any event not been made. The principles outlined by Carr J, which I have quoted above, were applicable to this case.
 - (3) It was not accepted that Alaska could not have alighted on the argument that they now wished to put forward earlier. The relevant information was and had been clear on the face of the Virgin Atlantic website; Virgin America had participated in the programme; and other reputable websites showed the availability of these flights.
 - (4) In correspondence, it had not been said by Alaska that the existing issues could not be determined fairly without the breach issues being tried alongside them. It was only now that this was being said orally.
 - (5) There was no application to amend; no application to adjourn; and no application for further disclosure. All in all, there was no reason to suppose that the current issues could not be fairly tried in October, leaving the Breach Allegation to be decided at a later stage, if a claim was in fact pleaded.

Discussion and conclusions.

29. I can set out my conclusions and reasons for refusing the application to bifurcate briefly.
- (1) The principal reason for my conclusion is that the application has been made far too late and very close to a trial in relation to which substantial costs have been incurred over a number of years.
 - (2) I accept to some extent at least the analogy made with late amendments. Here an amendment would be necessary, and the issues introduced by amendment could not be fairly tried in October. I make no finding on whether the issue could have

been identified earlier, and in the event both parties seemed to me to accept that I did not have the material with which to do so.

- (3) I also accept that it is not easy to define the split. This appeared to me to be clear from the fact that concessions were having to be debated between the parties, the exact scope of which were still mutating during the course of the hearing.
 - (4) The potential costs savings are very limited, in the context of a trial which is forecast to cost over £7m. I do not think that these can weigh heavily in the balance; and indeed I think it likely that there will be at least as great an increase in costs if bifurcation is ordered.
 - (5) I make it clear that it remains open to Alaska to make their claim for breach, and indeed that the issue of how this claim relates to Virgin's claim, which is for declaratory relief, remains to be debated in the light of judgment at the end of trial. The current ruling relates solely to the application to hive off the issues I have identified above.
 - (6) Finally, if and insofar as relevant evidence which might be common to issues of breach and matters already in issue in the current proceedings, that evidence will remain relevant to the current proceedings, and will have therefore to be considered in the current proceedings.
30. I am very grateful to both Counsel and their respective teams for their submissions.