

# Squire Patton Boggs Secures High Court Victory in IP Infringement Claim

Our UK Intellectual Property team has secured a [High Court victory](#) for our client, Process Components Limited (PCL), in a case concerning the sale and licence of intellectual property (IP) rights in powder processing machines ("Unit Machines"). The ruling is of wider general interest as the judge, Mrs Justice Proudman, reviews and comments on existing case law on some core contractual concepts, specifically how the courts approach the interpretation of contracts (considering *Arnold v Britton* and earlier authorities) and the tests around estoppel by representation and convention.

## The Issues

The facts of the case are complex but, in essence, PCL, the claimant in the action, agreed to purchase a business (the spares and valves business) from a third party (known as KPTL). The PCL Sale Agreement transferred to PCL the "Intellectual Property Rights" which were defined as:

"the full benefit (subject to the obligations) of all patents, registered designs, the Trade Marks, service marks, copyrights, know-how, technical and/or research and development information, drawings, specifications, domain names, computer programs and all licences, rights to protection and applications for registration and rights to apply for registration relating to such matters used by [KPTL] in the Business on Completion".

PCL understood and intended this to include all IP rights owned by KPTL, including all those relating to the assembly and manufacture of the Unit Machines. The parties to the PCL Sale Agreement had also intended to assign to PCL rights in the Kek, Gardner, Mucon and PPS brands. However, the final draft of the agreement retained an incorrect reference to a dead trade mark for the Kek mark instead of the then current registration number.

Two weeks later, the defendant in the action, Kason Kek-Gardner Limited (KGL), purchased another business from KPTL (the Unit Machines business). The KGL Sale Agreement transferred to KGL the "Intellectual Property Rights" which were defined as:

"the full benefit (subject to the obligations) of all patents, registered designs, trade and service marks, copyrights, know-how, technical and/or research and development information, drawings, specifications, domain names, computer programs and all licences, rights to protection and applications for registration and rights to apply for registration relating to such matters used by [KPTL] in the Business on 30 June 2009".

PCL and KGL subsequently entered into a licence pursuant to which KGL expressly acknowledged that PCL owned all the IP rights in the Unit Machines. PCL granted KGL an exclusive licence of those IP rights to assemble and sell the Unit Machines, which KGL subsequently did.

A dispute later arose about whether KGL needed a licence of the IP rights from PCL in order to be able to manufacture the Unit Machines. KGL argued that the IP rights relating to the Unit Machines had been transferred to them pursuant to the KGL Sale Agreement and not to PCL. PCL subsequently terminated the licence arguing that KGL had breached clause 10, which required the terms of the licence to be kept confidential, by disclosing the contents to a company which later acquired KGL. PCL relied on clause 11.2 of the licence which said:

"11.2 Either party shall be entitled to terminate this Agreement immediately by written notice to the other in the event of:

(a) any material breach by the other party of any of its obligations under this Agreement which, being a breach capable of remedy, is not remedied within 30 days of notice to the party in breach specifying the breach and requiring its remedy. (For this purpose, non-payment of any royalty under clause 5 constitutes a remediable material breach and breach of the confidentiality obligations under clause 10 constitutes a non-remediable material breach)".

The issues before the High Court were (1) who owned the IP rights relating to the Unit Machines and (2) had PCL properly terminated the licence?

## The Judgment

Mrs Justice Proudman found for PCL. She held that the answer to (1) turned on a proper interpretation of the PCL Sale Agreement and, in particular, on the meaning of "Business" in the definition of Intellectual Property Rights. She gave a comprehensive review of authorities on the interpretation of contracts, including *Chartbrook v Persimmon* and the Supreme Court decision in *Arnold v Britton*. She held that the correct approach to interpretation was to consider only the language of the contract, disregarding extraneous evidence, including pre-contractual negotiations. However, in identifying the intention of the parties, it was permissible to take into account the background knowledge available to them, i.e. the relevant matrix of fact. Applying this to the interpretation of "Business", the judge found on the evidence that the nature of the "Business" acquired by PCL was sufficiently broad to encompass use of practically all of the IP rights which KPTL had held prior to the business sales to PCL and KGL. This included certain IP rights relating to the Unit Machines. By continuing to assemble and sell the Unit Machines, KGL was infringing PCL's IP rights.

With respect to the incorrect reference to a dead trade mark for the word Kek, the judge held that, following *Chartbrook*, the court is able to correct clear mistakes by construction. The live trade mark was therefore conveyed to PCL under the PCL Sale Agreement as the reference to the dead trade mark was an obvious mistake. What is more, KGL did not believe that it was acquiring the Kek trade mark, it was therefore not a bona fide purchaser for value without notice of PCL's rights.

The judge went on to hold that PCL had properly terminated the licence pursuant to its rights under clause 11.2. She was satisfied that the ruling in *Hongkong Fir Shipping Co Limited v. Kawasaki Kisen Kaisha Limited* was authority for the proposition that the parties can determine whether a clause in a contract amounted to a condition which, if breached, resulted in a repudiation of the contract. That was what the parties had done here by expressly stipulating that breach of clause 10 gave a right of termination to the innocent party.

Following a review of the authorities on estoppel by convention and estoppel by representation, the judge also held that KGL was permanently estopped from denying that PCL owned all the IP in the Unit Machines and that the licence had been properly terminated. Accordingly, to the extent that any IP rights had not been assigned to PCL under the PCL Sale Agreement, KGL could not use those rights. She held that it was unfair and unconscionable for KGL to deny now that PCL owned the IP rights in the Unit Machines and that the licence was needed given that KGL had previously complied with the licence without query.

Clause 2.5 of the licence granted KGL an "indefinite" royalty-free licence to use "KEK-Gardner" in its corporate name. The judge held that "indefinite" meant for the term of the licence only. Once the licence was terminated, then so was the licence to use the name.

Our team of IP experts continues to advise other clients on IP infringement matters. For more information on this ruling, or IP infringement issues generally, please feel free to contact one of the lawyers listed in this publication.

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