

IP licence validly terminated for breach of confidentiality

- ▶ What intellectual property (**IP**) did each party acquire during the administration of Kemutec Powder Technologies Limited (**KPTL**)?
- ▶ Was a licensee estopped from disputing a licensor's ownership of IP?
- ▶ Was a licence validly terminated for disclosure of confidential information during the due diligence stage of a corporate acquisition?

What's it about?

KPTL entered administration in 2009. Process Components Limited (the **Claimant**) purchased the 'Mucon and spares' part of KPTL's business and, under a separate sale agreement, which was entered into later, KEK-Gardner Limited (**KGL**) purchased the 'unit machine' part of KPTL's business.

The Claimant's sale agreement purported to sell "all IP" to the Claimant. Subsequently, the Claimant and KGL entered into an exclusive licence for KGL to make and sell unit machines, in which KGL acknowledged the Claimant's ownership of the IP relating to the unit machine business (the **Licence**).

In 2015, KGL was acquired by Kason Industries Inc. (**Kason**), a competitor of the Claimant, after which the relationship soured and the Claimant terminated the Licence. Kason KEK-Gardner Limited, as KGL became known, (the **Defendant**) disputed the Claimant's ownership of the IP and claimed repayment of royalties in the sum of £600,000.

The Claimant argued before the High Court that it had purchased all IP from KPTL under its sale agreement in 2009 and, if it had not, the Claimant's sale agreement should be rectified and also the Defendant was estopped from disputing its ownership of the IP in any case, based on the express acknowledgement in the Licence, as well as the parties' subsequent conduct.

Why does it matter?

The court found that the Claimant had acquired the IP relating to the 'Mucon and spares' business in its sale agreement, rather than acquiring the entirety of KPTL's IP. This was still sufficient however to cover the Defendant's activities in producing the unit machines, and therefore the Defendant required a licence from the Claimant.

The Claimant's rectification argument was not made out, but was deemed unnecessary in any case. This was because the Defendant was estopped from disputing the Claimant's ownership of the IP based on the express acknowledgement in the Licence and that it was unconscionable for the Defendant to question the Claimant's ownership, given the amount of time that had elapsed since the Licence was agreed.

The Licence expressly stated that breach of the confidentiality provisions entitled the innocent party to terminate. KGL had breached the confidentiality clause in the Licence in 2014 when it made disclosure to Kason during its acquisition and as a result, the Claimant was entitled to terminate the Licence.

Now what?

The case is another example of the courts placing importance on the actual wording being used to interpret a contract, citing *Arnold v Britton [2015] UKSC 36*.

There is an interesting discussion around the classification of terms, in that the parties are free to classify a term of the contract as a condition, breach of which entitles the non-breaching party to terminate, citing *Hongkong Fir Shipping [1962] 2 QB 26*. It should be noted by corporate practitioners that disclosure of contracts during due diligence exercises could be problematic if they contain a right to terminate for breach of confidentiality;

In relation to estoppel, it was said that parties should be clear as to what IP rights they are getting when making an agreement, otherwise they may be later estopped from disputing ownership by conduct or representations.

Finally, an "indefinite" licence was interpreted to mean "for the term of the agreement" (i.e. the licence terminates on termination of the agreement), and not that such a licence is perpetual.

[*Process Components Limited v Kason KEK-Gardner Limited \[2016\] EWHC 2198 \(Ch\)*](#)

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