

Markem v Zipher—the Court of Appeal provides guidance on entitlement proceedings

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1. Introduction

In March 2005 the Court of Appeal handed down its judgment in *Markem v Zipher*¹ on patent entitlement (Figure 1). The judgment, delivered by Jacob LJ, was approved in full by Mummery LJ and Kennedy LJ. This important judgment both provides guidance on the application of the entitlement provisions in the Patents Act 1977 and also reviews and applies the rule in *Browne v Dunn*² on procedural fairness where the reliability of witnesses is questioned, while applying the *Henderson v Henderson*³ principles on abuse of process.

2. The facts

The claimants (Markem), a US company and its wholly-owned UK subsidiary, were both engaged in manufacturing printing and marking machines for use in industry. The defendants consisted of Zipher Limited, a company set up in March 2000 primarily to develop new printers (Zipher), and four personal defendants who previously worked for Markem but had left at various dates during 1999 to 2000 to work for Zipher.

Markem brought a patent entitlement action against Zipher involving six different patents and applications filed by Zipher: three patents related to thermal transfer printing and the other three related to inkjet printing. The basis of Markem's claim was that the inventions had been devised during the period when Zipher's employees had been employed by Markem.

The printers developed by Zipher were to be used to place information on packaging rapidly running on production lines (for example, bar codes and

Key issues

- A relatively routine dispute between the former and current employers of a team of inventors as to which is entitled to two groups of patents took an unusual turn after the former employer proved reluctant to argue any wrongdoing on the part of his former employees.
- Following the trial, issues were raised relating to the credibility of witnesses and abuse of process through the subsequent litigation of 'stored' issues. The Court of Appeal decided to substitute its own opinion of the evidence for that of the trial judge.
- This article maps the many strands of this ultimately complex piece of litigation, which the House of Lords has refused to review, touching upon both the substantive issues that the Court of Appeal has clarified as well as procedural uncertainties that still await clarification.

'best before' dates). At first instance⁴ Judge Fysh ruled in favour of Zipher in respect of the inkjet patents and the appeal by Zipher only concerned the thermal printer patents. These printers used a ribbon that carried ink and printed by the application of heat (thermal printing). The printers used a print-head consisting of many heatable heads. The print-head was in contact with the ribbon, which was, in turn, in contact with the packaging. When the small heatable heads were heated, they transferred a dot of ink from the ribbon to the packaging. The small heatable heads could be activated selectively to print the desired information on the packaging.

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1 (1) *Markem Corporation* (2) *Markem Technologies Ltd v Zipher Ltd*; (1) *Markem Technologies Ltd* (2) *Markem Holdings Unltd* (3) *Markem*

Corporation v (1) *Steven Buckby* (2) *Martin McNestry* (3) *Philip Hart* (4) *Keith Buxton* (5) *Zipher Ltd* [2005] EWCA Civ 267.

2 *Browne v Dunn* (1894) 6 R 67.

3 *Henderson v Henderson* (1843) 3 Hare 100.

4 *Markem Corporation v Zipher Limited* [2004] RPC 10.

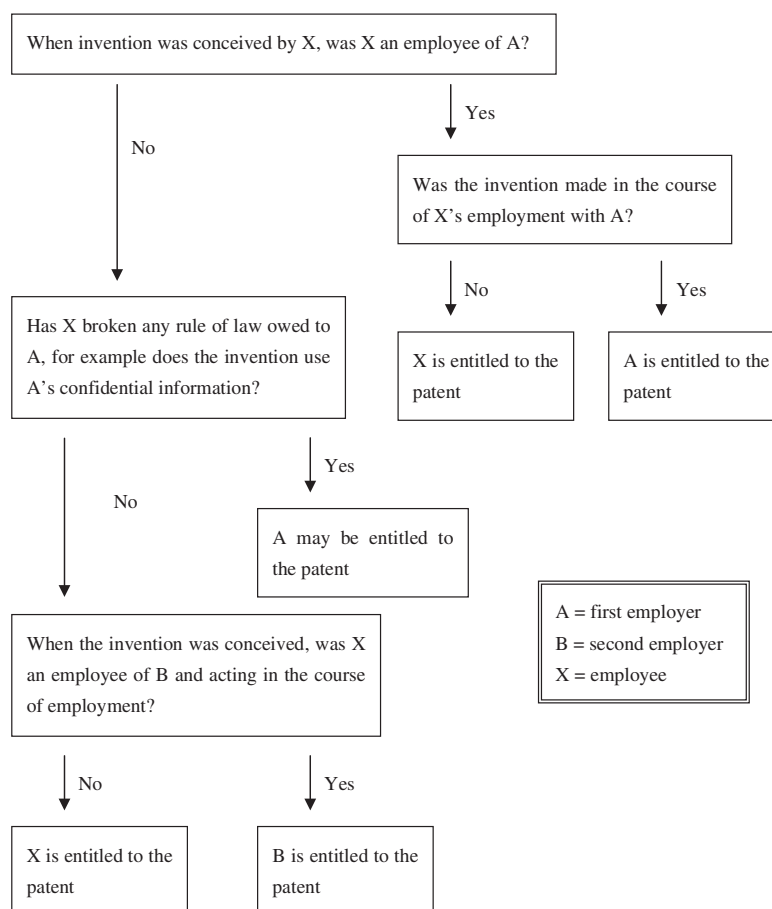


Figure 1. Determining patent entitlement.

3. Entitlement proceedings

Can an entitlement under section 7 Patents Act 1977 give rise to a claim for entitlement under sections 8, 12, or 37?

Markem claimed that some of the inventions covered by claims of the thermal printer group patents were made at Markem and that this gave them entitlement to Zipher's patents as sole owners or as co-owners. Importantly, Markem did not allege that Zipher or any of its employees had done anything wrong or unlawful; nor did it advance a case of breach of confidence, breach of contract, breach of fiduciary duty or other rule of law as part of its entitlement claim.

Markem claimed that it was entitled to apply for the patents under section 7 Patents Act 1977,⁵ which states that

- (1) Any person may make an application for a patent either alone or jointly with another.

- (2) A patent for an invention may be granted—

- (a) primarily to the inventor or joint inventors; ...
- (b) in preference to the foregoing, to any person or persons who, by virtue of any enactment or rule of law ... , or by virtue of an enforceable term of any agreement entered into with the inventor before the making of the invention, was or were at the time of making of the invention entitled to the whole of the property in it ...

- (3) In this Act 'inventor' in relation to an invention means the actual deviser of the invention and 'joint inventor' shall be construed accordingly.

On the basis that it was entitled to apply for a patent for the inventions under section 7, Markem relied on the provisions of sections 8, 12, and 37, which relate to the determination of questions of entitlement before the grant of the patent (section 8), in respect of foreign or convention patents

⁵ All references to sections are to sections of the Patents Act 1977.

(section 12), and after the patent has been granted (section 37). As neither party suggested that there was a material difference in the mechanism for determination of entitlement under these three sections, Jacob LJ based his judgment on section 8. By inference, however, the same principles will apply to sections 12 and 37.

Jacob LJ held that the question of whether Markem was entitled to apply for a patent under section 7 was irrelevant to the question of whether it was entitled to another party's patent application. Some other rule of law would have to be invoked to claim entitlement of another party's patent application. As noted, Markem did not assert at any point that Zipher or any of its employees did anything wrong or unlawful in the work carried out at Zipher or in making the

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patent applications that were the subject of the dispute. Jacob LJ added that there would be great uncertainty and damage to freedom of employment and research if the law were to be different. An ex-employee should be free to use information that is not a confidential trade secret or is otherwise confidential. Use of that information to make an invention should entitle the ex-employee to apply for a patent.

The take-home message is that, in order to advance an entitlement case under sections 8, 12, or 37, it is not enough to show that you could have made your own application for a patent under section 7. The burden should be on the party claiming entitlement to demonstrate a link between the inventive concept as conceived and owned by that party and the patent application as made by the other party. It is not enough for the claimant to show that he came up with the inventive concept if the owner of the patent came up with the inventive concept independently and happened to file the invention first. The only way that the claimant will be entitled to the patent will be if he can show some breach of a rule of law and, most commonly, this will be based on a breach

of confidence, breach of contract, or breach of a fiduciary duty.

Markem also argued that the Comptroller (ie the Patent Office) had no jurisdiction in respect of issues such as breach of confidence and restrictive covenants. It followed, Markem argued, that if the Comptroller had no jurisdiction to determine such issues, he also lacked jurisdiction to determine such issues as part of an entitlement claim: given that the Comptroller did have jurisdiction to hear entitlement claims under sections 8, 12, and 37, it necessarily followed that entitlement claims should not include questions such as breach of confidence. The Court of Appeal disagreed with this reasoning, holding that the Comptroller's jurisdiction in matters of entitlement included the determination of questions as to the legal rights of each of the parties. It was not enough to determine who was responsible for devising the inventive concept: it was also necessary to determine who had legal title to the inventive concept. Where the matter involved complicated questions of fact or law the Comptroller could always refer the case to the Court.

The Court of Appeal clearly envisaged that, besides an entitlement action based on sections 8, 12, and 37, a party could also bring an independent action for breach of confidence, breach of contract, or breach of a fiduciary duty where equity could compel a person to hand over the 'proceeds' of his wrong—which could include the legal title to the patent. Given that an entitlement claim needs to be linked to some breach of a rule of law, opportunities will always exist to plead an independent action for breach of that rule of law. The Comptroller will not, however, have jurisdiction to deal with such independent actions and a party will have to consider whether it wishes to bring separate court proceedings.

To what extent can validity be an issue in entitlement proceedings?

Markem argued that the issue of validity was irrelevant to entitlement proceedings and that the only question was who was entitled to the invention. The Court of Appeal found this approach illogical and held that

If the patent or part of it is *clearly and unarguably* invalid, then we see no reason why as a matter of convenience, the Comptroller [or the Court] should not take it into account in exercising his wide

discretion. . . Only when there is self-evidently no bone should the dogs be prevented from fighting over it.⁶ (emphasis added).

Thus a party cannot be entitled to a patent if an inherent part of the entitlement claim includes evidence that, if accepted, would result in the patent being clearly and unarguably invalid, and the Court or Comptroller exercises its right to revoke that patent. A party wishing to claim patent entitlement should, prior to initiating proceedings, assess whether the evidence supporting the entitlement claim also questions the validity of the patent. Where the validity of the patent is put into question, the party should consider including an invalidity claim as part of the proceedings. A successful entitlement action is, however, likely to be preferable to a successful invalidity action as, in the former case, the claimant becomes the owner of the patent whereas, in the latter, anyone may use the invention disclosed in the patent.

Are the terms of the claims relevant in proceedings under sections 8, 12, and 37?

To determine who contributed to what, Markem reasoned that a claim-by-claim analysis was required. To support this view, Markem relied on section 125(1), which states that ‘an invention . . . shall, unless the context otherwise requires, be taken to be that specified in a claim . . .’. Zipher disagreed with this approach and argued that what mattered was what was really invented.

The Court of Appeal agreed with Zipher. Jacob LJ distinguished between provisions in the Patents Act 1977 that were ‘home-grown’ and provisions that were derived from the European Patent Convention (EPC): sections 8, 12, and 37 fell into the former category while section 125(1) belonged in the latter. The meaning of ‘invention’ in sections 8, 12, and 37 need not necessarily conform to the meaning in the EPC-derived provisions. Jacob LJ held that the meaning of ‘invention’ in section 8 (and, by inference, sections 12 and 37) must have a more general meaning that which is contained in the claims. He reasoned that section 8 applied to situations where claims are yet to be drafted and the principle of what an invention meant in such circumstances

must remain the same once the claims were drafted. He thus held that section 8 essentially referred to information in the specification rather than the form of the claims: ‘Who contributed to what and what rights if any they had in it lies at the heart of the enquiry, not what monopolies were actually claimed’.⁷ He added that, as a general rule, one should start with the specific disclosure in the patent (ie ‘the heart’ of the invention) and ask whether that involved the use of information that was really that of the applicant, wholly or in part as a joint owner.

As an aside, although Jacob LJ reasoned that the meaning of ‘invention’ in section 125(1) was essentially about the monopoly granted and hence what was in the claims, there would be instances where the context would otherwise require, as clearly envisaged in section 125(2).

4. Procedural fairness

Mr Steve Buckby was Zipher’s principal witness. Managing Director of Markem’s UK subsidiary when he left in 1999 to found Zipher, he was not a named co-inventor in any of the patents but was thoroughly familiar with the technology and was involved in the prosecution of the patents.

At first instance, Judge Fysh found Buckby to be a witness in whom he did not have much confidence. He felt that, although a patent agent (Mr Allman) drafted the claims of the thermal printer patents, it was Buckby, and not the named inventors, who had been the principal architect in determining the scope of the patent claims. Judge Fysh held that he would only accept the critical parts of Buckby’s evidence when it had been corroborated. Jacob LJ disagreed with Judge Fysh’s assessment and felt that the approach by Allman and Buckby was a normal and desirable cooperation between the patent agent and the client. Further, Jacob LJ did not think that there was anything sinister in the fact that the named inventors did not take part in the drafting and generalization of the claims.

Besides Buckby, Judge Fysh also made adverse findings about three of the named inventors, Mr Philip Hart, Mr Keith Buxton, and Mr Martin McNestry. The criticism followed the inventors’ inability to

6 See para 88.

7 See para 101.

recollect a meeting minuted by Mr Chris Adkin while they were employed at Markem, which all the inventors attended (the 'Adkin Memorandum'). Judge Fysh said, 'I reject this tale of collective amnesia as being inherently unlikely among persons who gave me the impression of being both alert, astute and above all, technically able.'⁸ In addition, Judge Fysh felt that Buckby was not frank about the Adkin Memorandum, given his commanding position and technical awareness at Markem at the time of the meeting.

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Although Markem conceded during the appeal that Judge Fysh was wrong to make adverse findings about Buckby and the inventors, Jacob LJ dealt with this issue in his judgment as he believed it would be right to do so given that the reputation of the witnesses had been tarnished. Jacob LJ also took the opportunity to cite at length the rule in *Browne v Dunn* on procedural fairness, as the case is only reported in a very obscure set of reports and is difficult to obtain. He did so by citing the material passages of *Browne v Dunn* via the Australian decision of Hunt J in *Allied Pastoral Holdings v Federal Commissioner of Taxation*.⁹

In essence the rule states that, where the Court is asked to disbelieve a witness on a particular point, the witness should be cross-examined to give him an opportunity to explain and defend himself. Failure to cross-examine the witness will imply the acceptance of the evidence given by the witness, unless the witness has had full notice that there is an intention to question his credibility or the evidence is in itself fanciful.

Jacob LJ summarized the rule in *Browne v Dunn* by stating that 'procedural fairness not only to the parties but to the witnesses requires that if their evidence were to be disbelieved they must be given a fair opportunity to deal with the allegation'.¹⁰ Neither

Buckby nor the inventors were challenged in cross-examination as to the truthfulness of their evidence. In fact, Judge Fysh was not even asked to disbelieve the witnesses and Jacob LJ held that Judge Fysh should not have drawn adverse inferences from the witness evidence.

Jacob LJ held that it was not necessary to explore the limits to the rule in *Browne v Dunn* as the case fell squarely within it. In that case Lord Morris warned against having hard-and-fast rules with regard to cross-examining a witness as a necessary preliminary to questioning a witness' credibility. This does, however, raise some questions:

- (i) To what extent and in what manner should one cross-examine the witness for it to fall within the rule in *Browne v Dunn*?
- (ii) If the witness is not cross-examined, and his credibility is challenged, how clearly should notice be given?
- (iii) When will evidence be regarded as fanciful?

If in doubt, and where a party wishes to challenge the credibility of a witness, he should always question his credibility in clear terms during cross-examination.

Irrespective of the rule in *Browne v Dunn*, Jacob LJ also held that the trial judge's reasons for the adverse findings were inadequate. To reach this view, the Court of Appeal re-assessed the evidence and considered that they could form their view on the basis of the trial transcript as, in his judgment, Judge Fysh had said that he 'did not find the witnesses to be liars by reason of their bearing or demeanour'.¹¹ The problem with this is that Judge Fysh stated at paragraph 116 of the first instance judgment that 'I observed Messrs McNestry and Buxton whilst they were giving this evidence and formed the impression that this forgetfulness (particularly on the part of Mr Buxton) was exaggerated'. This criticism is, however, academic as Markem conceded the point during the appeal.

5. Abuse of process

The proceedings started in November 2002 when Markem referred their claim of entitlement to

⁸ [2004] RPC 10, at para 120.

⁹ *Allied Pastoral Holdings v Federal Commissioner of Taxation* (1983) 44 ALR 607.

¹⁰ [2005] EWCA Civ 267, at para 56.

¹¹ [2005] EWCA Civ 267, at para 62.

Zipher's patents and patent applications to the Comptroller. Shortly thereafter, a number of employees of Zipher commenced proceedings in the High Court seeking declaratory relief on the basis that the reference brought by Markem amounted to allegations of breach of confidentiality. Markem then attempted to strike out the High Court action as an abuse of process. In a hearing in December 2002, Markem denied that the entitlement proceedings included an assertion that the individuals seeking declarations had breached obligations of confidentiality. The Comptroller by then had decided to refer the entitlement proceedings to the High Court, and Jacob LJ (as he then was) stayed the declaratory proceedings' pending resolution of the entitlement action.

Well before the start of the trial on entitlement, Markem had available all of the information it required to bring a claim of breach of confidence. Markem did not, however, add such an action to the entitlement proceedings, and Zipher was the only named defendant. Judgment on entitlement was handed down in July 2003. In May 2004, Markem unsuccessfully sought to lift the stay on the declaratory proceedings and in June 2004 Markem began an action for breach of confidence against four individuals working at Zipher. The defendants in that action responded by applying to strike out the action as an abuse of process under rule 3.4 of the Civil Procedure Rules (CPR).

The defendants argued that the fresh action arose out of exactly the same factual background as the patent entitlement action and should have been brought at the same time. Judge Fysh (who heard the case) was of the view that Jacob LJ's intention in the hearing in December 2002 was to 'park' all further consideration of confidential information issues until the conclusion at first instance of the entitlement action. As such, Markem's breach of confidence action was not an abuse of process.

CPR 3.4(2) states, 'The court may strike out a statement of case if it appears to the court . . . that the statement of case is an abuse of the court's process or is otherwise likely to obstruct the just disposal of the proceedings.' The Court of Appeal noted that, as the power to strike out was discretionary, it would only interfere with the decision at first instance if that decision was plainly wrong.

The parties agreed that the principles set down in *Henderson v Henderson* as considered by the House of Lords in *Johnson v Gore Wook & Co*¹² laid down the law that had to be applied. In essence, the rule in *Henderson v Henderson* requires that issues and facts that are clearly part of the subject-matter of the litigation should be brought forward in the same action. The reasoning behind the doctrine is based on public policy as it is in the general public interest, and in the interest of the parties, that litigation should not drag on and that the defendant should not be oppressed by successive proceedings. Importantly, failure to comply with the rule does not automatically amount to an abuse of process. The doctrine should only be applied when the facts amount to an abuse, ie an unjust harassment of a party. The decision should be broad and merit-based, taking account of the public and private interests and all of the facts, focusing on whether, in all the circumstances, a party is abusing the process of the court. The Court must balance a claimant's right to bring an action with a defendant's right to be protected from being harassed by multiple proceedings.

The Court of Appeal held that, having examined all of the circumstances, the decision of Judge Fysh was wrong. Once Markem had all the available information to allege breach of confidence it was under an obligation to bring an action or to abandon it but was not entitled to keep it in reserve, awaiting the outcome of the entitlement proceedings, as this amounted to harassment.

Given that entitlement proceedings will always involve some breach of law, questions arise as to (i) whether any entitlement referral to the Comptroller should also be accompanied by independent proceedings in the Court for breach of that rule of law and (ii) when such a claim should be started. The decision will depend on the circumstances of each case and highlights the need to review the case strategy at a number of key stages during proceedings.

Whether or not one agrees with the guidance provided by the Court of Appeal in *Markem v Zipher* to the application of the entitlement provisions in the Patents Act 1977, the guidance will have to be followed for the foreseeable future as, on 26 October 2005, the House of Lords refused Markem's petition for leave to appeal.

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12 *Johnson v Gore Wook & Co* [2002] AC 1.