

# write news

Clear, pragmatic and commercial advice on all IT issues faced by our clients.

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# Purchasing Intellectual Property Rights From Companies In Financial Difficulties

In light of the current economic climate, this article aims to highlight some key issues to consider when **purchasing intellectual property rights (“IP”)** and assets from a company in financial distress.

## Expectations

Would-be purchasers need to be realistic about the opportunity on offer. If you are dealing with a company in the process of administration or liquidation, it is unlikely that you will get any meaningful warranties or indemnities in respect of the IP and assets you buy. However, if a company is streamlining its assets outside of a formal insolvency situation, then they may be prepared to offer some warranties and indemnities, although the price may increase to reflect this. If you are purchasing IP, you need to ensure that the use of the IP will not infringe IP belonging to a third party.

Although there may be the possibility of a substantial discount, this should not distract a purchaser from undertaking a full due diligence exercise on the IP to ensure the seller owns such IP and is in a position to sell it to you. Even if you are paying a nominal value, it is likely that substantial costs will be incurred in promoting and marketing the IP. An infringement claim made by a third party could render such investment worthless and result in a severe loss of reputation. Further, if you don't own the IP, then you will not be able to bring infringement actions against others who unlawfully use the IP.

## Preliminary Considerations

If presented with the opportunity to purchase IP and assets from a company in financial distress, there are some preliminary matters to consider:

- What IP rights exist?
- Who is the author and owner of such rights?

- Does the company own the rights/assets it is purporting to sell?

## Copyright

Copyright could potentially subsist in a large number of the company's assets such as its software applications, databases and website. However, even though copyright may subsist in such items, it does not follow that the company owns such rights. There are a number of potential owners including:

- the company;
- employees of the company; or
- third party contractors or consultants.

## Databases and data structures

A key asset of a company may be its databases, particularly its customer database. With any database or data structure you need to establish whether they are protected by copyright and/or database rights and who owns such rights.

If you are purchasing a customer database you should enquire whether the customers have consented to their data being sold or transferred. Any future use you intend to make of this information should be in accordance with the consent provided by the customer. Any misuse of the information, in particular personal information, could potentially be in breach of the Data Protection Act 1998.

## Trade Marks

If the company has EU or UK registered and unregistered trade marks that you wish to purchase, a search of the UKIPO trade mark register should be undertaken to identify the owners of registered trademarks and identify any trademarks that are the same as or similar to those of the company. The results of such searches may have an impact on your future use of the trade marks and the price you are prepared to pay for these assets.

A search of the trade mark register may identify trade marks that may cause concern should you wish to:

- register a registered trade mark in additional classes; or
- apply for registration of any unregistered trade marks.

## Due Diligence

As with a share purchase of a company, a full due diligence exercise should be carried out (usually with the assistance of your solicitors and accountants) not only to identify and investigate all unregistered or registered IP but also to consider the terms of any licences/support agreements with third parties. All documentation relating to the particular assets you wish to purchase should be carefully reviewed and considered. You should be aware that, if a company is in a formal insolvency procedure, the

office holder is likely to have limited information about the assets and the onus will be on the purchaser to conduct its own searches, enquiries and inspections.

If there are any licences or contracts with third party developers, designers or consultants in place, these should be reviewed to ascertain who any IP created during the course of such agreements belongs to and whether it has been validly assigned to the company. Any licences granted for use of the IP should be reviewed, particularly if the asset is software, because, if the agreement can be terminated due to the insolvency of the seller, then what happens to the software must be considered. If there is an escrow agreement in place, the insolvency of the seller could not only trigger termination of any licences but also activate the terms of an escrow agreement under which a third party can get hold of the source code to software. If this is the case, the value of the licence and software may be diminished. If a purchaser is purchasing an IP asset for the potential income generated by the various associated licences, the asset may be worthless if such licences can be and are terminated in administration or liquidation.

### Computer programs and software codes

As part of the due diligence exercise, the authors and owners of software codes and programs should (as far as is possible) be ascertained. Simply purchasing a company's IT infrastructure may not grant you the right to use the software or codes. Any agreements with third parties should be considered to ascertain ownership or the terms on which any software licences have been granted to a company.

Equally important are the terms of any licences or maintenance and support agreements that the company may have entered into. You should ensure that you are fully aware of the basis on which software is supported and that you have sufficient resources to continue such support in a profitable way.

Clauses that may cause particular concern are:

#### Assignment clauses

There are two possible functions of these clauses:

1. to vest current or future intellectual property rights in a specific person or company; and
2. to restrict if and to whom the benefit or burden of a contract can be assigned. Therefore the company may be prevented from assigning or novating the contract to you.

#### Change of control clauses

A change of control clause may allow the contracting party to terminate if the seller is subject to a change in its control whereby more than 50% of the shares of the company are transferred to a new party or a substantial part of the business of a company is transferred to a third party. This may mean you need to negotiate with the other party to the contract to get their agreement that they will not terminate it.

### Employees

There are a number of things to consider with regard to a company's employees even if you do not take on any of its current employees.

You should ascertain whether any employees are responsible for the development of any of the IP. If employees have been involved in the development of IP, then their contracts of employment should be reviewed to see if any IP created during the course of their employment is assigned to the company as a matter of course and whether they have waived any "moral rights" in the works created by them.

You should note that there may still be a question over ownership of any works created outside the scope of an employee's particular role or outside of working hours and independently of the company. It doesn't necessarily follow that the company is the owner of all rights it is claiming to have.

When purchasing any major IP and taking either a novation or assignment of associated service agreements, enquiries should be made with the purchaser as to whether any employees are wholly or substantially involved in the provision of services under such agreements. If they are, then their employment may automatically transfer to you under the Transfer of Undertakings (Protection of Employment) Regulations 2006. If there is the possibility of this occurring, you should carefully consider this and take appropriate advice on the implications of these regulations.

### Obtaining Ownership

Registered and unregistered trade marks should be assigned in writing. Any assignment of a UK registered trade mark should be registered with the UKIPO.

### Conclusion

Even though the current economic market is likely to lead to more companies being placed into administration or liquidation, before purchasing assets from these companies a full due diligence exercise is still of paramount importance. Spending time and money at the outset of the deal could save time, money and expensive litigation in the long term. You should also be careful when purchasing assets at an undervalue if a seller is not in administration or liquidation as, in insolvency situations, arrangements selling assets at an undervalue in the preceding two years (five years where parties are connected) before insolvency may be set aside.

We have an insolvency and corporate recovery team and IT specialists who can help with all your queries and act for you in connection with the purchase of IP and other business assets.

For further assistance on IT or IP matters please contact Carl Newton or Carla Walsh. For insolvency queries, please contact M Akeel Latif or Joanne Perritt. For

# Software Patents - The Symbian Case

UK software patent applications for computer programs have traditionally been rejected by the UK Intellectual Property Office (UKIPO) on the basis that the subject matter of the application (the program) is excluded from the possibility of patent protection under UK legislation. However, the recent case of *Symbian Ltd v Comptroller General of Patents [2008]* may lead the way forward for more successful computer program related patent applications in the future.

## The Facts

Symbian Ltd ("S") had developed a method to overcome problems encountered with Dynamic Link Libraries (DLLs) when additional functions are added to DLLs. S submitted an application to patent this method. The UKIPO rejected the application, following the four stage test set out in the leading case of *Aerotel/Macrossan [2006]* (see below), on the basis that the contribution was a computer program and fell solely within the excluded subject matter.

S appealed against this decision and the case made its way to the Court of Appeal. The Court reaffirmed the test set out in *Aerotel/Macrossan* but stated that the UKIPO had interpreted the subject matter of patent incorrectly. The Court confirmed that the method involved a technical contribution which could be afforded patent protection.

## The Technical Contribution

The method developed by S was a computer program, however the technical contribution and effect of the program was that the computer and DLL's speed and functions were improved. It was held that the method

provided a novel technical solution and was not just a computer program and was therefore afforded protection.

## The Way Forward

Although the approach of the Court in the Symbian case does attempt to reconcile the UKIPO and European Patent Office's (EPO) approaches to patents, the extent to which this will happen still remains to be seen.

Shortly after the Symbian case however, the President of the EPO put a series of questions to the Enlarged Board of the EPO on this matter. It is hoped that the answers to these questions will provide clearer guidance and authority on what computer program related innovations are patentable.

It is likely to be some time before a response is provided by the Enlarged Board. In the meantime, when considering an application for a "software" patent, the following four stage test will continue to be applied.

## The Four Stage Test

The four stage test is to:

1. Properly construe the claim (i.e. the patent application);
2. Identify the actual contribution of the invention;
3. Ask whether the contribution falls solely within the excluded subject matter (i.e. is the invention simply a computer program?);
4. Check whether the contribution is actually technical in nature.

It is likely that post-Symbian there will be an increase in the grant of the number of "software patents" for computer programs. If you have developed an application which has a novel technical effect on either the computer or other programs then you should consider making an application for a patent as you just might obtain patent protection for your novel software development.



## Ryanair wins Injunction against “Screen-Scraper”

Ryanair have won an injunction to prevent German company Vtours from screen-scraping its website. Screen-scraping (or “scraping”) occurs when one company acquires information from another company’s website (such as pricing and sales information) and then uses this to offer a discount comparison service to bargain hunters.

This practice is commonplace in the personal finance, insurance and travel industries and many companies welcome the extra business that scraping can generate. Ryanair however, is completely opposed to such practice and is now also taking action against Dutch company Bravofly, to prevent its data being used in the same way.

Ryanair maintain that scraping is an infringement of its copyright and its terms and conditions which forbid commercial use of information from its website. In its case against Bravofly, Ryanair alleged that the use of the information from its website to sell its services amounted to an offence of passing off.

Scraping effectively means that customers were paying handling fees to purchase Ryanair flights which would not otherwise be charged if they were purchased directly on Ryanair’s website. It has also led to further problems in that customers have been left unaware of changes to their bookings and their terms and conditions.

As result of this, Ryanair introduced new procedures in August 2008 to cancel all passenger bookings made through screen scraping websites. This was to avoid the problem of passengers being charged handling fees and to act as a more effective way of discouraging scraping without the need to bring further legal action. Whilst aggregator websites need to be aware of this, it should be noted that not all sites are affected by Ryanair’s new procedures. Travelsupermarket.com has said that it does not book flights on behalf of its customers, it simply refers the booking to the relevant airline. These tickets should therefore still be valid.

Easyjet have followed suit in warning websites to stop selling its flights. However, it remains to be seen whether they will take legal action. Companies should therefore be aware of the potential for other aggregator websites, outside of the travel industry, to be targeted and the consequential loss of business which could follow.

## Domain Name Battle and Company Names

A British couple lost the right to keep the narnia.mobi domain name as they failed to show an arbitration panel for the World Intellectual Property Organisation (WIPO) that it was registered in good faith.

The couple claimed that the domain name was purchased for their young son who was a big fan of Narnia. They also stated that they did not make any money from the name. However, it was ordered that the address should be transferred to the company representing the estate of CS Lewis.

This case links in with recent changes to the system of adjudication where there is an objection to a company’s registered name. These changes were brought into force on 1 October 2008 by the Companies Act 2006 and the Company Names Adjudicator Rules 2008.

Applications can now be brought by an individual or a company where the grounds for objecting to a company’s registered name are that it is:

1. the same as a name associated with the applicant in which he has goodwill, or
2. sufficiently similar to such a name that its use in the UK is likely to mislead by suggesting a connection between the company and the applicant.

If one or both grounds are established, the objection will be upheld unless the respondents can show various factors in their favour.

Such factors include:

1. the fact that the name was registered before the applicant commenced the activities he relies on to show goodwill; or
2. that the name was adopted in good faith.

Where an objection is upheld the respondent company will be ordered to change its name.

## IT Team - Key Contacts

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Carl Newton  
Managing Partner & Head of IT Law

Carl, the firm's Managing Partner, is an experienced company/commercial lawyer with considerable expertise in the IT sector. He is the head of our IT team. Carl has particular expertise in advising on the financing, exploitation and development of IT and Internet technologies and products. He is a member of the Society for Computers and Law.

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Tim is a partner and has expertise in IT litigation. He has many years experience in dealing with disputes, arbitration and court proceedings involving IT clients and concerning IT issues. He has been involved in many complex software product disputes.

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Debra Coady  
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Debra is a solicitor in our Company/Commercial Department. She has extensive experience in drafting and advising upon a range of IT-related contracts including reseller agreements, software licences and support agreements, and website design and usage terms and conditions (including privacy policies). Debra is a member of the Society for Computers and Law.

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Carla is solicitor in our Company/Commercial Department, specialising in IT, intellectual property and commercial law. She has particular expertise in advising on e-commerce law, franchising and data protection matters.

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