



IPBRIEF



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THE DIGITAL ECONOMY BILL: CLAMPING DOWN ON COPYRIGHT INFRINGEMENT

Last year the government proposed broad ranging changes to the communications industry, some of which have been set out in the Digital Economy Bill (the "Bill") which is currently being debated in the House of Lords. Amongst other things, the Bill introduces direct, strict provisions to address the online infringement of copyright, the prosecution of persistent infringers and the penalties for infringement.

Under the new proposals, when a copyright owner identifies a case of possible infringement it will send a Copyright Infringement Report ("CIR") to the Internet Service Provider ("ISP") which will link the infringement to a subscriber account and send notification of the CIR to the subscriber.

The ISP will compile a Copyright Infringement List ("CIL") detailing each CIR made against one of its subscribers and the copyright owner will be able to request and use the CIL to obtain a court order to find out the name and address of a persistent infringer.

The copyright owner will then have the right to contact the infringer directly and issue proceedings against the infringer if he continues to infringe the owner's copyright.

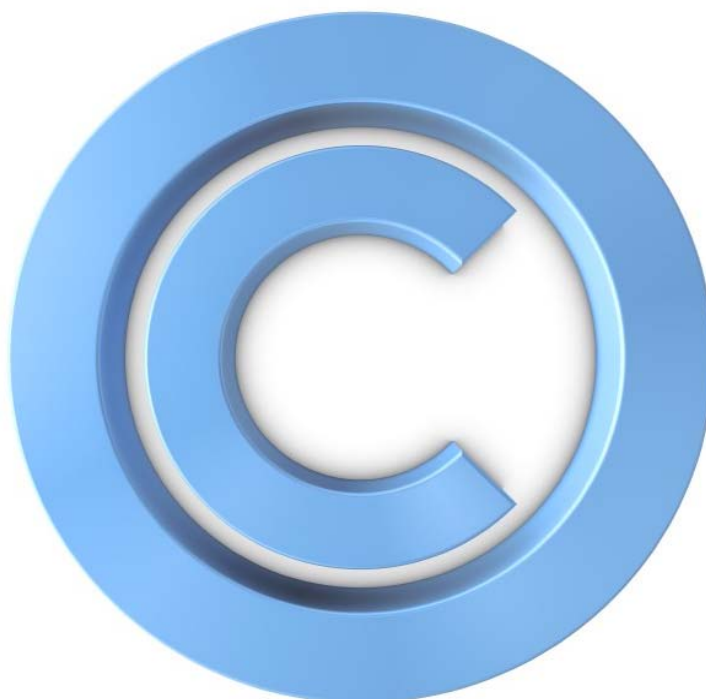
In such situations it is proposed that OFCOM will also have the power to instruct an ISP to

limit or cancel their subscriber's internet access and, in extreme cases, impose a penalty of up to £250,000 on the ISP.

This provision in particular has caused concern for the likes of public institutions, such as schools and universities, or internet cafes and other businesses which provide internet services to a large number of people. They have argued that it is not easy to account for the internet activities of such a large and in some cases, randomly constituted group of people and therefore this punishment is too extreme.

In spite of this concern, a proposed amendment to reduce the limit of the potential fine to £10,000 was rejected by the House of Lords at the end of January. The Lords decided that the requirement that OFCOM make any fine "appropriate" and "proportional" will ensure that the power to impose penalties is not abused.

Another subject of dispute is the proposal to introduce a super-affirmative resolution procedure which would provide the Secretary of State for Business Innovations and Skills, currently Lord Mandelson, with





the power to amend existing legislation with reduced input from the House of Lords.

The reasoning behind this proposal is that the law needs to respond to rapid advances in technology and that this procedure would be a way of “future proofing” legislation. However the proposal received an angry response from some members of the House of Lords who felt that the government would be exceeding their authority under these provisions.

The communications industry also opposed the change and, in December, Google, Facebook, Yahoo and eBay sent an open letter to Lord Mandelson in which they strongly urged him to amend this section of

the Bill as they felt it could be used to amend legislation even where no offence had taken place.

Following debate in the House of Lords at the end of January, the relevant section was amended to restrict the government’s powers to amend legislation to situations where it is necessary to prevent copyright infringement by means of the internet and where the infringement is having a serious adverse effect on business or consumers. The amendment would have to be a proportionate way to address the infringement, the government would also have to consult all parties affected by any proposed change and draft amendments would have to be approved by the House of Lords.

It remains to be seen to what extent, if at all, these changes appease the industry.

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IP CONSIDERATIONS FOR M&A

Whether or not Intellectual Property is a key driver for a corporate transaction, you can guarantee that a target or business will own Intellectual Property which should be considered appropriately in the due diligence phase. Intellectual Property considerations may even dictate fundamental aspects of a deal, such as whether a transaction is completed through asset or share sale.

around disclosure of Intellectual Property or confidential information obtained and reviewed to see if this information has been protected adequately.

If the vendor company has key products and brands which the purchaser wishes to acquire, then Intellectual Property may already be high on the agenda. The purchaser will need to consider the

the vendor, and how those will impact on the deal and the purchaser's future business plans.

A purchaser will need to appreciate how the Intellectual Property has been treated since creation. Has sufficient protection been obtained and maintained, and has any current or previous exploitation closed the door on the purchaser's plans for the use of the Intellectual Property in the future? If the vendor has exploited the Intellectual Property successfully, then the purchaser may wish to have reassurance that it is able to continue with successful commercial arrangements post completion, and that a key commercial network will not immediately terminate. This may have a major impact on the transaction value as a whole.

In any case, the purchaser will need to be aware of any Intellectual Property litigation risk associated with the company, and to cover off any transferring liability with appropriate warranties and indemnities. Businesses with little interest in Intellectual Property are perhaps the ones who are most likely to unknowingly or naively infringe upon the rights of others, creating a costly liability.

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“If the vendor company has key products and brands which the purchaser wishes to acquire, then Intellectual Property may already be high on the agenda”

In all transactions a vendor will want to maximise any retained value after completion of the transaction and minimise any ongoing risk; whilst a purchaser will want to acquire any necessary or desirable Intellectual Property for the best price and on the best possible terms, whilst reducing the transfer of risk. Achieving the correct outcome will mean that the treatment of Intellectual Property, what is transferring and how, must be considered carefully.

Even if a company has no interests in registered Intellectual Property, there may still be important unregistered rights such as copyright or unregistered design right or trade secrets which add value to the company and lend it a competitive edge. If this is the case then Intellectual Property and confidentiality policies and procedures should be examined, and any agreements

importance of these key assets post acquisition, and the strength and validity of the Intellectual Property rights protecting them. This will allow a purchaser to value the key Intellectual Property with reference to professional advice. If the purchaser wishes to acquire such key Intellectual Property, the vendor may require a concession for continued use in some form by the vendor or their group company.

The background to the creation of registered and unregistered Intellectual Property should also be examined. A purchaser will want to see a clear paper trail evidencing creation of the material, any funding arrangement or development agreement around the creation, and any subsequent transfer or licence of the Intellectual Property to the vendor. The purchaser will also need to be aware of any restrictions imposed on transfer or licence to



WORKING FROM HOME

Working from home can be a tempting alternative to the office. However, you do have to exercise some caution when allowing employees to take work home. The Information Commissioner's Office (ICO) recently found that the Mid Staffordshire NHS Foundation Trust had breached the Data Protection Act 1998 due to the actions of a member of staff.

An employee of the HR department of the Trust transferred personal information about an employee to a home computer. The information included details of the employee's previous criminal conviction, which is defined as "sensitive personal data" under the Data Protection Act and which is, as you might expect, to be treated particularly carefully.

The information transferred was not subject to any protections, such as passwords or encryption and the ICO found that this amounted to a breach of the Data Protection Act. Furthermore, the ICO felt that the Trust did not initially act with sufficient urgency when it became aware of the matter. The Chief Executive of the Trust has had to sign an undertaking confirming that certain security improvements will be made, including new rules for staff working from home.

The Seventh Data Protection Principle requires that:

"Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of

personal data and against accidental loss or destruction of, or damage to, personal data."

This requirement can pose problems for organisations when people are working outside the office, particularly with the prevalence of laptop and hand held computers. The ICO published a Good Practice Note back in November 2007 recommending that portable devices have appropriate encryption software in place in case they are stolen, lost or left in a taxi, as may be the case. If the devices are not protected with encryption software, the ICO has indicated that it will pursue enforcement action against the relevant organisation.

Marks & Spencer fell into difficulties with the ICO for this reason. M&S employed a company to assist with its pension scheme. In order to enable the company to carry out this work, the personal data of 26,000 members of the M&S pension scheme were provided to the company. The information was loaded onto a laptop in preparation for a meeting the next day but that night the house

of the Managing Director of the company was burgled and the laptop stolen. The information on the laptop was not encrypted and, as a result, M&S was the subject of an enforcement notice from the ICO.

If you do allow staff to work from home or if you provide staff with portable devices such as laptops, you need to consider whether there is a risk of a security breach and take measures to avoid this, such as protecting devices with encryption software.

It is also a good idea to make staff aware of the problem and to put in place an appropriate policy regulating how staff are to use personal data when working from home.

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IP LICENCES VENTURING INTO ANTI-DEPRIVATION

Businesses and organisations often licence others to use technology developed by them, frequently because this technology can be better exploited outside of the business or organisation by another partner.

Such licensing may involve a joint venture structure. This establishes a separate company to exploit the technology, in which the IP owner and exploiting partner have a joint interest by way of share ownership. Any necessary intellectual property licence is then granted to the joint venture company.

A recent decision of the High Court, in a case between the administrators of companies within the Woolworths group and BBC Worldwide, focused on these licences of technology in joint ventures. In particular, the case examined the circumstances in which any licence of technology granted to the joint venture can be recovered in the instance of the insolvency of the other joint venture party.

A key principle of insolvency law states that any attempt to deprive any other creditors of an insolvent company of valuable assets is void. This is known as the “anti-deprivation” principle, and allows the administrators to challenge various transactions and arrangements affecting the value of the insolvent company. Generally, however, grants of interests in property (such as an intellectual property licence) can be terminated on insolvency of the licensee without issue.

In this particular case, a Woolworths group company had entered a joint venture with BBC Worldwide. One clause of the joint venture agreement granted an option for either joint venture partner to purchase the other partner’s shares in the joint venture company, if that other partner became insolvent. To exercise this option, notice had to be served on the insolvent partner. This is a fairly standard clause in a joint venture arrangement. It protects the remaining partner from the sale of the other insolvent partner’s shares to an unrelated purchaser, to whom the remaining partner might have reason to object.

A substantial intellectual property licence was granted by BBC Worldwide to a subsidiary of the joint venture company. That licence stated that it would terminate on service of the notice under the joint venture agreement exercising the share purchase for the insolvency of one of the partners. When the Woolworths company became insolvent, BBC Worldwide issued notice to purchase the Woolworths shares and to terminate the licence to the joint venture subsidiary company.

The court objected to the linking of the right to terminate the licence on insolvency with the option to purchase the other partner’s shares in the joint venture company. The court decided that this offended the “anti-deprivation” principle as the shares could be bought at a much lower value after the licence had been terminated, and that the provisions were void. Had the two clauses

not been linked in this way, there would have been no objection to terminating the licence.

This decision has confused the law on when an intellectual property licence can be terminated in insolvency situations. Those involved in granting technology licences should therefore be careful to analyse the circumstances in which they can effectively retrieve these licensed rights in insolvency situations, to ensure that these rights can be terminated as necessary.

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THE PRICE IS RIGHT?

It is rare for a business or organisation to have to value its intellectual property. It is easy to imagine, were such a valuation to be needed, that the sums involved could be astronomical, especially when you take into account a business' or organisation's "brand image", reputation, know-how and expertise together with any patents, registered designs and the like.

Thinking about valuing intellectual property does, however, bring into sharp relief a crucial question: how do you assess the value of something as unquantifiable as intellectual property rights? This is a topic which arises in technology transfer

arrangements on a regular basis, albeit on a much smaller scale.

In early December, the Intellectual Property Office produced a useful booklet entitled "Agreeing a Price for Intellectual Property Rights" which covers the basic principles used in valuing intellectual property. The booklet runs to 30 or so pages but is easy to read and includes a comprehensive overview of matters to take into account when considering how much any particular piece of IP might be worth.

Probably the most valuable part of this booklet is the useful checklist which itemises the criteria that are very likely to run through

the minds of any potential licensee or assignee of intellectual property.

The booklet can be found on <http://www.ipo.gov.uk/iprpricebooklet.pdf>.

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This brief is intended to be a general guide and is not a substitute for taking advice on specific issues. If you have any specific questions about your own circumstance please contact:

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