



INTELLECTUAL PROPERTY IN DISTRESSED COMPANIES – A HEALTH CHECK

Intellectual property rights are often valuable assets to a company, however they may be overlooked by insolvency practitioners. In some extreme cases the intellectual property rights may even be lost before they come to the Office Holder's attention. In this article Rosie Patterson, a solicitor specialising in intellectual property disputes at Debenhams Ottaway LLP, explains the issues that insolvency practitioners should look out for when they are first appointed.

1. REGISTERED RIGHTS

The easiest rights to identify are registered rights because the company should have some record of the registration(s), or alternatively if there is a suspicion that a right has been registered, it should be possible to locate it by a search of the intellectual property registries. Registered rights include trade marks, patents, registered designs, utility models and domain names.

Where registered rights are identified, an Office Holder might trouble shoot common issues associated with those rights by asking the following questions:

Is an Intellectual Property Professional already on-board?

Most companies owning registered rights will have engaged an IP professional, such as a trade mark or patent attorney, to register the rights and possibly to maintain the portfolios. The exception to this may be domain names, which are frequently registered in-house. That professional should be able to advise if there are any urgent actions that need to be taken, such as payment of fees or filings in relation to disputes.

Have registration / maintenance fees been paid?

It is important to make sure that the relevant renewal fees have been paid.

- For trade marks, as well as the initial application fee, renewal fees are payable every 10 years.
- For patents, renewal fees are payable every 4 years.
- For registered designs, renewal fees are payable every 5 years.
- Most domain name providers have an annual fee.

In each case, there is a small window of a few months within which the fee must be paid.

Failure to renew may mean that the right (and the value associated with it) is permanently lost.

Are there any ongoing oppositions, cancellation actions or other disputes?

If an intellectual property professional is engaged they should be able to inform the Office Holder of any ongoing disputes. In circumstances in which no professional is engaged, then Office Holders may want to look to the relevant registry to see if there is a note of the dispute. Deadlines missed in disputes may result in the right being lost.

Are the correct names on the register?

We frequently see instances of the incorrect name being recorded on the register, particularly where trade marks and domain names are (intentionally or otherwise) registered in the name of an employee or director.

As well as leading to costly disputes, this also means that legal title and so the value of the right can incorrectly sit outside the company. Where the parties are on good terms it is relatively inexpensive and straight forward to transfer the rights. If the parties are not on good terms, it may be arguable that the beneficial ownership vests with the company, but there is a real possibility that the matter will only be resolved by resorting to litigation.

Is the correct address on the register?

It goes without saying that if the incorrect address is on the register, the Office Holder will not receive notifications relating to the rights in good time, if at all.



2. UNREGISTERED RIGHTS

Most trading companies will benefit from unregistered rights, whether in the form of their logos, copyright in materials and web pages, database rights and possibly unregistered designs.

Each raises different issues for an Office Holder, and are considered in turn below:

Unregistered trade marks

A company might have value in its slogans, logos, trade get-up and branding. A frequently encountered issue is that ex-employees or related parties to the company set up similar businesses, which can entice customers away (although any director doing so needs to take care not to fall foul of the phoenix provisions in s.216 of the IA 1986).

Cease and Desist letters are often a relatively cheap and cost effective solution in these circumstances, although in some Circumstances, and if the value of the right makes it a viable option, it may be necessary to file an action in passing off.

COPYRIGHT

Copyright arises automatically in original works, and can include written work, websites, photographs and designs. An issue commonly encountered in distressed company situations is that copyright is not owned by the company. This is because copyright automatically vests with the creator and must be assigned in writing.

we therefore recommend that any Office Holder looking to realise value in copyright associated with a company, checks the terms of employment contracts and those with third party consultants to be sure that the company owns the copyright that it uses, and so is in a position to realise that value.

CONCLUSION

In summary, Office Holders would be well advised to perform an initial inventory of the intellectual property owned by a company early on in their appointment. This can serve to identify any current or future issues and act to preserve both the value of the intellectual property right and the ability of the company to operate in the future.

DATABASE RIGHTS

In contrast to copyright, database rights are usually owned by the company that ordered the right to be created. Databases protect collections of works, data or other materials arranged in a particular way. In practice, database rights often include intranets and websites (which will also include copyright), back-office inventory systems and document management systems.

There may be value in a database, however the transfer of databases containing personal details has been complicated by GDPR and Office Holders would be well advised to seek legal advice before agreeing to such a transfer. Conversely, databases frequently “walk” with employees leaving the business. In many cases a simple letter from legal counsel informing the individual that the rights need to be returned can be effective. In more contentious circumstances, remedies such as trade secrets actions and applications for injunctions can be an effective, although sometimes costly, option.

3. LICENCES

Where a company licenses intellectual property in, or out, there is a strong chance that those licences will be affected by the company experiencing an “insolvency event”.

If licences “in” automatically terminate on this event, the company (if still trading) risks either not being in a position to continue its trade, or worse still, may be in breach of third party rights. It is therefore essential to identify potential problems at an early stage so that a solution can be negotiated if possible with the licensee.

Licences “out” may prove to be a useful income stream and Office Holders should consider whether it is possible to negotiate the continuation of these.