

PITFALLS IN SALE OF BUSINESS

1. In nearly all cases the assets of a business for sale include intellectual property. Frequently there are granted patents and registered designs and nearly always there is a registered trade mark or at least a common law trade mark and various copyright works.

Dealing first with PATENTS

2. Without wishing to generate work for patent attorneys, in my view it is extremely useful for the vendor of a business involving even the most rudimentary technology to apply for patents in respect of inventions which have been made in the course of that business. I say this for 2 reasons.
3. First, in my experience potential purchasers, or indeed those who simply wish to invest in a venture, wish to see proprietary rights being acquired or secured in exchange for their money. I know of a number of situations where business owners have had difficulty in selling their businesses or attracting venture capital because they did not have patents granted or applied for in respect of their products and product improvements. A vendor's promise that "*it's all in my head and I agree to stay here for the next 5 years and turn it into something valuable for you*" just does not appear to be sufficiently attractive to investors, in the normal case at least.
4. Secondly, the very act of drafting a patent specification and claims so as to properly disclose and define a product or process is a very useful exercise. It has the effect of articulating clearly the point of development reached by employees as at the date of application for the patent. It thus prevents, or helps to prevent, a later allegation that

those employees made the development after they left their employment, or did so with their own resources and outside of business hours even though they were employed.

5. Those kinds of allegations can arise in the course of any enterprise, but they often seem to crop up when employees are unhappy with a new owner and wish to leave and embark upon a similar operation on their own account. Absent a patent, or a patent application, identifying what was done prior to taking possession, the new owner may be in the extremely difficult position of trying to establish entitlement to an invention by piecing together minutes of meetings and lab notes and reports made by the former employees before they departed. That can be a very painful and expensive exercise.
6. Without going into the detail of them may I refer to a number of cases- *University of Western Australia v Gray* (2009) 179 FCR 346, *Victoria University of Technology v Wilson* (2004) 60 IPR 392 and *Royal Children's Hospital v Alexander* [2011] APO 53 as useful cases not directly involving sales of businesses but illustrating the difficulties that can arise in identifying whether or not inventions in particular cases were made during or outside the course of employment.
7. Having said that vendors should apply for patents, may I now add that vendors should also be very careful about *warranting the validity of their patents* in a sale of business agreement. Many patents are revoked after grant because they are invalid. Invalidity can arise in numerous ways.
8. One example is invalidity by reason of lack of novelty. Another is invalidity by reason of obviousness. These grounds might arise

because of a prior publication or use about which the vendor/patentee has absolutely no idea. It does not matter that the prior publication or use is unknown to the vendor/patentee if in the light of it the claimed invention is not new, or is obvious. In such a case the patent will be invalid.

9. Furthermore, there are a host of technical reasons why a patent, or particular claims thereof, may be invalid and, once again, these matters are not always apparent to the vendor/patentee.
10. For example, particular claims might be held to be broader than what is justified given the disclosure in the body of the specification, in other words, there has been a deal of overreaching going on. Alternatively, invalidity may arise because the vendor/patentee has not fully disclosed how to perform the invention or the best method of performing the invention. This inadequate disclosure might be innocent but the relevant claims will be invalid nonetheless (subject to the complicated issue of amendment, which I do not propose to deal with here).

Next moving to TRADE MARKS

11. In the case of trade marks, once again, in order to avoid significant pitfalls it is advisable for trade marks used in the business to be registered. On the vendor's side, he or she will thereby secure proprietary rights which make the business attractive to a purchaser and on the purchaser's side he or she will feel something substantial is being acquired.
12. Many of us may have had experience of a purchaser not being satisfied with a bare promise by the vendor not to compete post-sale

using a common law mark. It is invariably more satisfactory to have a *registered* trade mark assigned to the purchaser which, if the vendor's promise is not adhered to, can be deployed fairly promptly to obtain an interlocutory injunction against infringement.

13. A situation which still commonly arises is where the vendor sells the business, or loses control of it in some other way, but feels free to compete against the subsequent proprietor using the vendor's own name, even though that name has become an asset of the business. These disputes can be difficult, but they are made easier for the subsequent proprietor if the vendor's name has been registered as a trade mark.
14. One example is *Bob Jane Corporation Pty Ltd v ACN 149 801 141 Pty Ltd* (2013) 97 ACSR 127; [2013] FCA 1255 where the successors to the Bob Jane T Mart business successfully prevented Bob Jane, the founder, from competing in the same field under his own name, viz, "Bob Jane".
15. Another example is *M Webster Holdings Pty Ltd v Peter Morrissey Pty Ltd* (2011) 91 IPR 624 where Peter Morrissey the designer started a fashion business in 1997 under the MORISSEY mark which he then sold to Rene Rivkin and others who later sold it to Oroton who then sold it to Webster Holdings. Years later, in 2008, Peter Morrissey Pty Ltd, a company associated with the original vendor designer, sought registration for the mark PETER MORRISSEY. This was refused based upon the MORRISSEY mark. In an opposition decision a delegate of the Registrar of Trade Marks said that " [34] While there are no details regarding how

much was paid to Mr Morrissey for the morrissey label and its trade marks and associated goodwill, I assume that it was not a small amount. I accept that where an assignee has bought a business including trade marks, the value of the purchase will be undermined if the assignee is not able to protect those trade marks and maintain enforceable rights. Indeed, it is my opinion that it is unlikely that the opponent would have purchased the Morrissey label and the associated trade marks and goodwill in the business if it did not intend to maintain and protect the considerable reputation vested in the Morrissey brand.”

16. See also the Andrew Garrett saga (*Garrett v Make Wine Pty Ltd* [2014] FCA 1258)

AN OBVIOUS POINT

17. It goes without saying in the case of registered intellectual property rights such as patents, trade marks and designs that those registrations need to be transferred to the purchaser, normally by separate conveyances, and that this should be done at the time of or very promptly after completion. It is surprising how often the transfers are not affected promptly. It rarely matters in the long term, but it can be frustrating for the purchaser if he or she needs to quickly enforce those rights against third parties.

DATABASES

18. Finally, I would like to say something about databases. For a number of businesses these days the most valuable asset they have is their database of customer details. I am talking for example about certain on-line businesses such as gambling businesses, hotel and restaurant booking businesses and things of that kind. Sometimes all the purchaser really wants is the name, address, past purchasing history and, crucially, internet address and mobile phone number of each of the vendor's customers.

19. In days gone by it was assumed that these kinds of databases could be protected because copyright would subsist in them as compilations and hence literary works and unauthorised use of them inevitably involved reproduction of some kind. Since the decision of the High Court in *Ice TV v Nine Network Aust Pty Ltd* (2009) 239 CLR 458 this is no longer true. Accordingly, the purchaser should ensure that the vendor gives warranties that relevant databases have not been the subject of unauthorised access because if they have, and it certainly happens, one can assume that that access has been by a competitor or by someone who plans to sell the data to a competitor, which of course means that the purchaser is not getting the exclusive customer connection it is paying for.

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