

Applying traditional property laws to intellectual property transactions

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Introduction

"X hereby assigns, as beneficial owner, the Patents to Y..."

The phrase "as beneficial owner" rings alarm bells in the legal mind, at least in the minds of English lawyers. Even if you can't remember exactly what the words imply, you may recall that the phrase is often used in conveyancing transactions, when (real) property is sold. But what do these words mean? Aren't there some implied warranties which are incorporated into the contract when these words are used?

Of course, by now all readers of this magazine will be thinking: yes, yes, get on with it. We all know that under section 76 of the Law of Property Act 1925 ("the Act"), certain provisions are implied into a conveyance, where the party conveying the property is expressed to do so as beneficial owner. And that those implied covenants are set out in the Second Schedule to the Act. And that there are different covenants, depending on the type of conveyance, including (a) conveyances for valuable consideration, and (b) conveyances by way of mortgage. And that the covenants in a conveyance for valuable consideration can be summarised as:-

1. *title*: that the person conveying has full power to convey.
2. *quiet enjoyment*: that the purchaser will have "quiet enjoyment" of the property.
3. *freedom from encumbrances*: that the property is conveyed free from any charge or other encumbrance, claims or demands except those stated in the conveyance.
4. *further assurances*: that the person conveying will, when required, execute further documents and take further actions as may be necessary to enable a full transfer of the property to be effected.

It is assumed by many intellectual property lawyers that these implied covenants may apply to assignments of intellectual property. Certainly, the phrase "as beneficial owner" is frequently encountered in assignments drafted by English lawyers. But if section 76 of the Law of Property Act can apply to intellectual property transactions, are there other provisions of the Act, and of property law generally, which affect such transactions? In the author's view there are several areas where this is so, including some areas that are rarely mentioned in intellectual property textbooks. This article considers some areas of traditional property law that may significantly affect agreements concerned with intellectual property.

Implied covenants and the Law of Property Act 1925

1. Does the Act apply to intellectual property?

The implied covenants referred to above only apply to "conveyances".ⁱ It is necessary to consider several sections of the Act before concluding that an assignment of intellectual property is a conveyance. By section 205 of the Act, "conveyance" is defined to *include*:-

a mortgage, charge, lease, assent, vesting declaration, vesting instrument, disclaimer, release and every other assurance of *property* (emphasis added) or of an interest therein by any instrument, except a will.

The term "property" is defined by the same section of the Act to *include*:-

any thing in action, and any interest in real or personal property.

Thus a transfer of legal title to real or personal property, or transfer of an interest in real or personal property, would seem to be a conveyance for the purposes of the Act. Clearly, intellectual property is not real property (ie land and buildings). The argument in favour of section 76 applying to intellectual property transactions therefore depends partly on whether intellectual property is *personal property*.

It also depends on whether the Act applies to personal property. After all, the Act was introduced as part of a major reform of *land* law in the 1920s.ⁱⁱ Although the Act does not specifically state that its provisions apply to personal property, it seems clear that some of them do. This can be seen from the fact that some sections of the Act state that they apply only to *land* (eg section 1), whilst other sections (including section 76) are not so limited. However, the Act only applies to property situated in England and Wales.ⁱⁱⁱ Thus, even if intellectual property is property for the purposes of the Act, it is likely that the Act only applies to UK intellectual property, eg a UK patent.

All of this begs the question, is intellectual property properly classified as *personal property*? In the case of patents, the position is clear. The Patents Act 1977 states:-

Any patent or application for a patent is personal property (without being a thing in action)...^{iv}

For registered trade marks, the position is equally clear. The new Trade Marks Act 1994 states:-

A registered trade mark is personal property...^v

For copyright and design right, the position is almost as clear. For copyright:-

Copyright is transmissible by assignment, by testamentary disposition or by operation of law, as personal or moveable property.^{vi}

Whilst for design right:-

Design right is transmissible by assignment, by testamentary disposition or by operation of law, as personal or moveable property.^{vii}

The law is less clearly stated in the case of registered designs, but nevertheless would seem to confirm that a registered design is personal property. The most direct reference to be found in the Registered Designs Act 1949 appears in a section concerned with registration of transactions in designs, and merely provides that:-

...equities in respect of the design may be enforced in like manner as in respect of any other personal property.^{viii}

Thus, it seems clear that patents, trade marks, copyright, design right and registered designs are examples of personal property. An assignment of such intellectual property will generally transfer the legal title to that property.^{ix} Thus, it seems that an assignment of intellectual property could be a conveyance of property for the purposes of the Act.

It is less likely that an intellectual property licence would be regarded as a conveyance. A licence is regarded as a right *under* the intellectual property, rather than a right or interest *in* the property.^x There may be an argument that certain kinds of exclusive licence give the licensee a property interest in the intellectual property, as distinct from a mere contractual right; certainly an exclusive licence can give the licensee statutory rights, which may be thought of as going beyond mere contractual rights.^{xi} It is interesting to note in this context that for stamp duty purposes an exclusive, irrevocable licence of intellectual property is treated in the same way as an assignment, ie it may amount to a "Conveyance on Sale" on which *ad valorem* stamp duty may be payable.^{xii}

2. *Scope of the implied covenants*

The implied covenants in the case of a *conveyance for valuable consideration* have already been mentioned. It should be noted that "valuable consideration" does not include a nominal consideration in money.^{xiii} Arguably, an assignment for a consideration of one pound (which is sometimes encountered in practice) would be regarded as a conveyance for nominal consideration, so that the statutory covenants would not be implied into the assignment.

Section 76 of the Act provides for different types of conveyance. The categories that are most likely to be relevant to intellectual property assignments are conveyances for valuable consideration and conveyances by way of mortgage (as to which, see below). The section also describes a number of other categories of transaction into which covenants will be implied, namely: (i) conveyances of leasehold interests, (ii) mortgages of freehold property subject to a rent or of leasehold property, (iii) conveyances by way of settlement, and conveyances by a trustee or mortgagee, as well as a number of other situations.

The implied covenants in the case of a mortgage of property are set out in Part III of the Second Schedule to the Act. They may be summarised as follows:-

1. *Right to convey.* The person conveying has the right to convey.
2. *Right to take over beneficial ownership.* If there is a default in payment of the debt, it will be lawful for the creditor to enter and take over the property as beneficial owner (ie subject to covenants similar to those referred to above).

3. Other aspects of these covenants

Section 76(6) of the Act includes a provision to the effect that the implied covenants benefit subsequent owners of the property. It reads as follows:-

The benefit of a covenant implied as aforesaid shall be annexed and incident to, and shall go with, the estate or interest of the implied covenantee, and shall be capable of being enforced by every person in whom that estate or interest is, for the whole or any part thereof, from time to time vested.

It may be doubtful how far this provision would operate in relation to intellectual property, eg in the case of a subsequent assignment of that intellectual property, as the concept of an "estate" passing may be relevant only to land.

4. Implied conveyance of all rights held

A little known provision of the Act confirms that a conveyance is effective to transfer all the rights in the property held by the party conveying the property. This provision appears to have been intended to remove doubts based on nineteenth century case authority. In the intellectual property field, there is case law^{xiv} on a similar point, namely that following an assignment of a patent, no rights are retained by the assignor. Section 63 of the Act provides as follows:-

- (1) Every conveyance is effectual to pass all the estate, right, title, interest, claim and demand which the conveying parties respectively have, in, to, or on the property conveyed, or expressed or intended so to be, or which they respectively have power to convey in, to or on the same.
- (2) This section applies only if and as far as a contrary intention is not expressed in the conveyance, and has effect subject to the terms of the conveyance and to the provisions therein contained.
- (3) This section applies to conveyances made after the thirty-first day of December, eighteen hundred and eighty-one.

Thus, where an assignment of a patent merely states that X assigns a named patent to Y, the effect of the above provision would seem to be that X assigns all his right, title, interest, claims and demands in the patent to Y. Often, assignments will specifically state that all "right, title and interest" is transferred. Although this would seem not to be strictly necessary by virtue of the above provisions, it may be prudent to state expressly the extent of rights transferred. Note that this provision does not mention the right to sue in respect of infringements which occurred prior to the date of the infringement, although it does refer to claims and demands that have been already been made. If the right to sue in respect of past infringements is intended to be transferred, it should certainly be stated in the assignment.^{xv}

Other provisions of the Law of Property Act 1925 which could apply to intellectual property transactions

The main intention of the Act was to consolidate previous law on transactions in land although, as has already been mentioned, many of its provisions apply also to transactions in personal property. The following paragraphs concentrate on those provisions of the Act that appear to have a direct impact on intellectual property transactions, for example provisions which may alter the interpretation of an assignment or licence agreement. Other provisions of the Act, which are not described here, may be applicable to intellectual property transactions but do not seem to affect such transactions significantly.

1. Use of expressions

It is common in commercial agreements to state specifically that certain expressions, when used in the agreement, are to be interpreted broadly. For example, it is common to state that references to a person include a firm, company or other organisation. In the absence of such express terms, section 61 of the Act^{xvi} provides that the following words have the following meanings:-

In all deeds, wills, orders and other instruments executed, made or coming into operation after the commencement of this Act [ie 1st January 1926], unless the context otherwise requires:

- (a) "Month" means calendar month;^{xvii}
- (b) "Person" includes a corporation;
- (c) The singular includes the plural and vice versa;
- (d) The masculine includes the feminine and vice versa.

It is not expressly stated that these provisions apply only to deeds and instruments (eg written agreements) concerning property, but this may be implicit given the general purpose of the Act. It would seem that such provisions apply to assignments of intellectual property, whether or not executed as deeds, and possibly also to licences and other agreements concerning intellectual property.^{xviii}

In relation to the interpretation of implied covenants, section 83 of the Act implies some further provisions which appear to repeat parts of section 61:-

In the construction of a covenant or proviso, or other provision, implied in a deed or assent by virtue of this Act, words importing the singular or plural number, or the masculine gender, shall be read as also importing the plural or singular number, or as extending to females, as the case may require.

2. Notices

It is generally desirable in commercial agreements to include a provision stating how notices should be served under the agreement. In the absence of such a provision, the notice provisions set out in section 196 of the Act (see below) may be deemed to apply to any "instrument affecting property"; this phrase would appear to cover most agreements in respect of intellectual property, including licences and assignments. Section 196 could be a major trap for the unwary, as failure to serve a notice in the required manner could invalidate the notice. For example, the termination provisions in a licence agreement sometimes provide that termination for breach may only take place after the defaulting party has been given notice of the breach and given an opportunity to remedy it. Failure to give notice of the breach in the correct way could invalidate any subsequent purported termination of the contract.

Section 196(5) implies certain notices provisions into any "instrument affecting property executed or coming into operation after the commencement of this Act [ie 1st January 1926] unless a contrary intention appears." The notices provisions are set out in subsections (1) to (5) of section 196, the relevant parts of which read as follows:-

- (1) Any notice required or authorised to be served or given by this Act shall be in writing.
- (3) Any notice required or authorised by this Act to be served shall be sufficiently served if it is left at the last known place of abode or business in the United Kingdom of the ...person to be served ...
- (4) Any notice required or authorised by this Act to be served shall also be sufficiently served, if it is sent by post in a registered letter addressed to the ...person to be served, by name, at the aforesaid place of abode or business, office or counting house, and if that letter is not returned through the post-office undelivered; and that service shall be deemed to be made at the time at which the registered letter would in the ordinary course be delivered.
- (5) The provisions of this section shall extend to notices required to be served by any instrument affecting property executed or coming into operation after the commencement of this Act unless a contrary intention appears.

3. *Fraudulent concealment of material matters*

Section 183 of the Act includes provisions which affect not only the parties to a property transaction, but also their agents. The provision is designed to prevent a person when disposing of property from concealing or falsifying matters which are material to the title to the property, and may go further than the general law of fraud. In that sense it may be regarded as an exception to the principle of *caveat emptor* - let the buyer beware! Unusually, the provision mentions specifically the solicitor acting for a party disposing of property. The section provides for both a criminal offence and a civil wrong where matters which are material to the title to the property are concealed or falsified. Section 183(1) provides as follows:-

Any person disposing of property or any interest therein for money or money's worth to a purchaser, or the solicitor or other agent of such person, who:

- (a) conceals from the purchaser any instrument or incumbrance material to the title; or
- (b) falsifies any pedigree upon which the title may depend in order to induce the purchaser to accept the title offered or produced;

with intent in any of such cases to defraud, is guilty of a misdemeanour [ie criminal offence] punishable by fine, or by imprisonment for a term not exceeding two years, or by both.

Section 183(2) provides for a similar civil cause of action giving a right to damages.

4. Purchaser's constructive notice

Section 199 of the Act limits the circumstances in which a purchaser is prejudicially affected by notice of any instrument or matter or any fact or thing relating to the property being purchased by him. In brief summary, he is not so affected unless he or his counsel, solicitor or other agent knew or would have known if he had made reasonable enquiries.

5. Witnessing of conveyances

Another provision which appears designed to protect the purchaser of property is to be found in section 75 of the Act. It deals with the situation where the conveyancing document is signed in counterparts, often without both parties being present at signature. Section 75 includes the following provision:-

On a sale, the purchaser ...shall be entitled to have, at his own cost, the execution of the conveyance [ie by the seller] attested [ie witnessed] by some person appointed by him, who may, if he thinks fit, be his solicitor.

In the case of an assignment of intellectual property and where the validity of a signature may be in doubt, this may provide some protection for the purchaser. Alternatively the parties could always arrange to sign together at a completion meeting.

6. Relief from forfeiture

In a recent Court of Appeal decision^{xix}, the court was prepared to override a provision in an agreement between co-owners of a patent, which provided that if a party failed to reimburse the other one half of certain patent expenses within a period of 30 days, the other party could require the defaulting party to assign to it its rights in the patent. The court held that its equitable jurisdiction to grant relief against forfeiture (more frequently encountered in real property disputes, eg cases concerning attempts to evict a tenant for failure to comply with the terms of the lease) is available for all kinds of proprietary or possessory rights. The court extended the time period in which the defaulting party was required to reimburse the other party for the patent costs.

That case was distinguished in a more recent case concerning a trade mark licence^{xx}, on the grounds that the licensee's rights were contractual, rather than being an interest in property. Accordingly, the principle of relief against forfeiture was not available.

For the sake of completeness, it may be worth mentioning that the principle of relief against forfeiture is

also established in statutory form in section 146(2) of the Act. Under that section a lessee can apply to the court for relief from forfeiture of the lease, even though he has been in breach of the lease, and the lease provides that it may be terminated in the event of such a breach. However, section 146 is stated to apply to "leases"; it is not clear whether this term could apply to intellectual property licences, but it seems unlikely on reading the section.^{xxi}

Multiple ownership of property

1. Introduction

Multiple ownership of intellectual property can lead to significant problems for the owners, particularly if their rights and obligations towards one another in respect of that property are not fully agreed. Some of the reasons why problems can arise, at least under English law, are the following:-

(a) the Patents Act 1977 determines certain rights and obligations of co-owners of a UK patent, in the absence of any agreement between them to the contrary.^{xxii} In brief summary, each co-owner is entitled to an equal, undivided share in the patent; each co-owner may manufacture and sell products using the patented invention without the consent of the other co-owner(s); but a co-owner may not grant any licence under the patent, nor assign his share in the patent without the consent of the other co-owner(s). Parties who agree to co-own a patent are not always aware of these provisions and their implications. For example, if an academic institution and a manufacturing company agree that they will co-own a patent, it will often be the case that the manufacturing company can exploit the patent without paying the academic institution any royalty, if it manufactures the patented products itself. By contrast, the academic institution will generally not be in a position to manufacture the products and in order to exploit the patent it will need to grant licences under it. It will not be able to do this unless the other co-owner agrees; even where the other co-owner does agree it may demand a royalty or other payment as the price for its consent.

(b) the nature of co-owners' rights in other types of UK intellectual property is not as clearly stated in the legislation as it is in the case of patents. On the specific issues of a co-owner's right to grant licences, the law governing other types of intellectual property appears to be similar to that governing patents.^{xxiii} However, it is noticeable that the legislation for copyright and design right refers to *joint* owners rather than co-owners^{xxiv}; as will be discussed below, the law of property makes a distinction between joint tenancy and tenancy in common, and it may be, therefore, that the ownership rules in respect of jointly owned copyright and design right differ from those for co-ownership of patents, ie it cannot be assumed that the rights of co-owners of copyright and designs are the same as the rights of co-owners of patents.

(c) the rights and obligations of co-owners under the patent laws of other countries are in many cases different to those which apply to UK patents. It is understood, for example, that it may be possible for a co-owner of a US patent to grant a non-exclusive licence under the patent without the consent of the other co-owner(s). Thus if parties co-own a portfolio of patents in several countries, and fail to agree their respective rights in those patents, they may find that their rights vary depending on the country of the patent. Misunderstandings may arise where the co-owners are from different countries which have different rules: each co-owner may imagine that the patent laws of his country apply worldwide, and may intend that his country's laws on co-ownership would apply to all the patents.

It may therefore be advisable either to avoid co-ownership of intellectual property, or to agree in advance what each co-owner may do with the intellectual property. The remainder of this section will consider how the traditional laws of personal property may affect the rights and obligations of multiple owners of intellectual property.

2. Joint ownership and ownership in common

(a) distinction between joint ownership and ownership in common

The most common situation in which people encounter joint ownership and ownership in common is where a husband and wife co-own their house. They may agree to do so either jointly or in common. For the reasons referred to in paragraph (b) below, the legal mechanism for doing this will generally involve them in holding the property on trust for themselves as either joint tenants or tenants in common. The essential difference between these two methods of ownership can be seen where one of the co-owners dies. In the case of a joint tenancy, on the death of one of the joint tenants, the house becomes the sole property of the surviving joint tenant. In the case of a tenancy in common, on the death of one of the tenants his or her share of the property passes under his/her will or under the intestacy rules.

Tenants in common each have what is known as an undivided share in the property. A husband and wife who own a house as tenants in common will generally have equal, undivided shares in the property. This terminology becomes relevant when considering the statutory rights of co-owners of patents. Section 36(1) of the Patents Act 1977 provides as follows:-

Where a patent is granted to two or more persons, each of them shall, subject to any agreement to the contrary, be entitled to an equal undivided share in the patent.

The rights of co-owners of a patent are thus defined by statute, as quoted above, rather than under the general law of personal property. Nevertheless it is clear from the statutory wording that the owners of a patent are to be considered as owners in common rather than joint owners, subject to any agreement to the contrary. The general law governing ownership in common may therefore be applicable to co-ownership of patents, except to the extent that such law has been modified by the statutory provisions.

By contrast the Copyright, Designs and Patents Act 1988 (CDPA) does not include any wording equivalent to section 36(1) of the Patents Act 1977. The CDPA refers to joint owners of copyright and design right.^{xxv} It is not clear whether use of the word "joint" implies joint ownership in the traditional property law sense. The Registered Designs Act 1949 makes no reference to joint ownership or ownership in common.^{xxvi}

In cases of doubt, it may be desirable to include in an agreement between the co-owners of intellectual property a statement indicating whether ownership in common or joint ownership is intended. In practice, owners of intellectual property tend to prefer to be owners in common.

(b) prohibition on legal ownership in common

Section 34(1) of the Act made it impossible to create an undivided share in land (ie ownership in common) except under a settlement or a trust for sale. One effect of this provision is that if two people (eg a husband and wife) wish to own their house in common, they may only do so by holding the house as joint *legal* owners, and on trust for themselves as *beneficial* tenants in common. This prohibition on *legal* ownership in common does not apply to patents, by virtue of section 36(1) of the Patents Act 1977. Nevertheless, in view of the general approach of English property law in distinguishing between legal and beneficial co-ownership, it may be desirable to indicate, in agreements between co-owners of intellectual property, that they own the property as *beneficial* owners in common (if that is intended), as well as the respective shares that they hold in the property (eg equal shares, or two thirds to one third etc.)

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The above article is based on extracts from the author's forthcoming book Technology: The Law of Exploitation and Transfer, which is due to be published by Butterworths early next year.

(5070 words)

NOTES

- i. see the wording of section 76, which begins: "In a conveyance..."
- ii. see the commentary in Halsbury's Statutes, volume 37 (Real Property), Butterworths 1987.
- iii. section 209 of the Act.
- iv. section 30(1) of the Patents Act 1977.
- v. section 22 of the Trade Marks Act 1994.
- vi. section 90 of the Copyright, Designs and Patents Act 1988.
- vii. section 222 of the Copyright, Designs and Patents Act 1988.
- viii. see the proviso to section 19(4) of the Registered Designs Act 1949 (as amended) which can be found set out in Schedule 4 to the Copyright, Designs and Patents Act 1988.
- ix. subject to compliance with any formalities, eg a patent assignment must be in writing signed by both parties (section 30(6) of the Patents Act 1977) and should be registered (see section 33 of that Act).
- x. see *Instituform Technical Services Ltd v Inliner UK plc* [1992] RPC 83.
- xi. see eg the rights of an exclusive licensee of a patent, under section 67 of the Patents Act 1977.
- xii. see Stamp Act 1890.
- xiii. section 205(1)(xxi) of the Act.
- xiv. see *In the matter of Scott and Beard's Patent* 45 RPC 31 (1927), where a former owner unsuccessfully tried to object to an application by the assignees to extend the term of the patent, on the grounds that he had not assigned the right to apply for an extension. See also *Massmann v Massmann and the Custodian of Enemy Property* 61 RPC 13 (1943) (CA) and 60 RPC 45 (1943) (High Ct.).
- xv. compare section 30(7) of the Patents Act 1977 which provides that an assignment of a patent "may" confer on the assignee the right to bring proceedings for a previous infringement, ie this is not automatically implied into such an assignment.
- xvi. see also the equivalent provisions in sections 5 and 6 of, and Schedule 1 to, the Interpretation Act 1978.
- xvii. But what is a calendar month? The notes to this section in Halsbury's Statutes (volume 37 page 160) include the following sentences:

"A period to be calculated from a day normally excludes that day and fractions of a day are disregarded, so that a wife who died at 11 a.m. on 9 April 1966 was not living three months from her husband's death at 5 a.m. on 9 January 1966 to benefit from his will of 1953 "if she shall survive me and be living at the expiration of a period of three months from my death"; see re Figgis, *Roberts v Maclaren* [1969] 1 Ch 123, [1968] 1 All ER 999."

xviii. provided the property is situated in England and Wales - see section 209 of the Act.

xix. *BICC plc v Burndy Corporation* [1985] RPC 273 (CA).

xx. *Crittall Windows Limited v Stormseal (UPVC) Window Systems Limited and Another* [1991] RPC 265.

xxi. see sections 146(5) and 205 of the Act for definitions of lease and lessee.

xxii. see section 36 of the Patents Act 1977.

xxiii. eg in the case of copyright, see section 173(2) of the Copyright, Designs and Patents Act 1988 which provides that in the case of jointly owned copyright, any requirement of the licence of the copyright owner requires the licence of all of them. Section 259 of that Act makes similar provision in the case of jointly owned design right. In the case of registered designs, section 19(4) of the Registered Designs Act 1949 is not clear on this point. It provides that "the person or persons registered as proprietor of a registered design shall have power to assign, grant licences under, or otherwise deal with the design, and to give effectual receipts for any consideration for any such assignment, licence or dealing." This wording does specifically address the question of whether one of the joint owners may, for example, grant a licence.

xxiv. see the heading to section 36 of the Patents Act 1977.

xxv. see eg section 173(2) in relation to copyright, and section 258(2) in relation to design right.

xxvi. see section 19(4).