

Transactions between directors, officers and companies - are you satisfying your IP and corporate governance requirements?

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Transactions

- Assignments/Licences/Mortgages/Mergers
- What do you bring to the table?
- Due diligence on what the other side brings to the table
- Negotiation: amicable result for both parties!
- Completion of a contract

Overview

1. Who is a director?
2. General duties of directors
3. Transactions with directors
4. Consequences of breach

Who is a Director?

- No complete “definition” of who is a director
- Directors’ duties apply **equally** to “executive” and “non-executive” directors
- “Shadow” directors

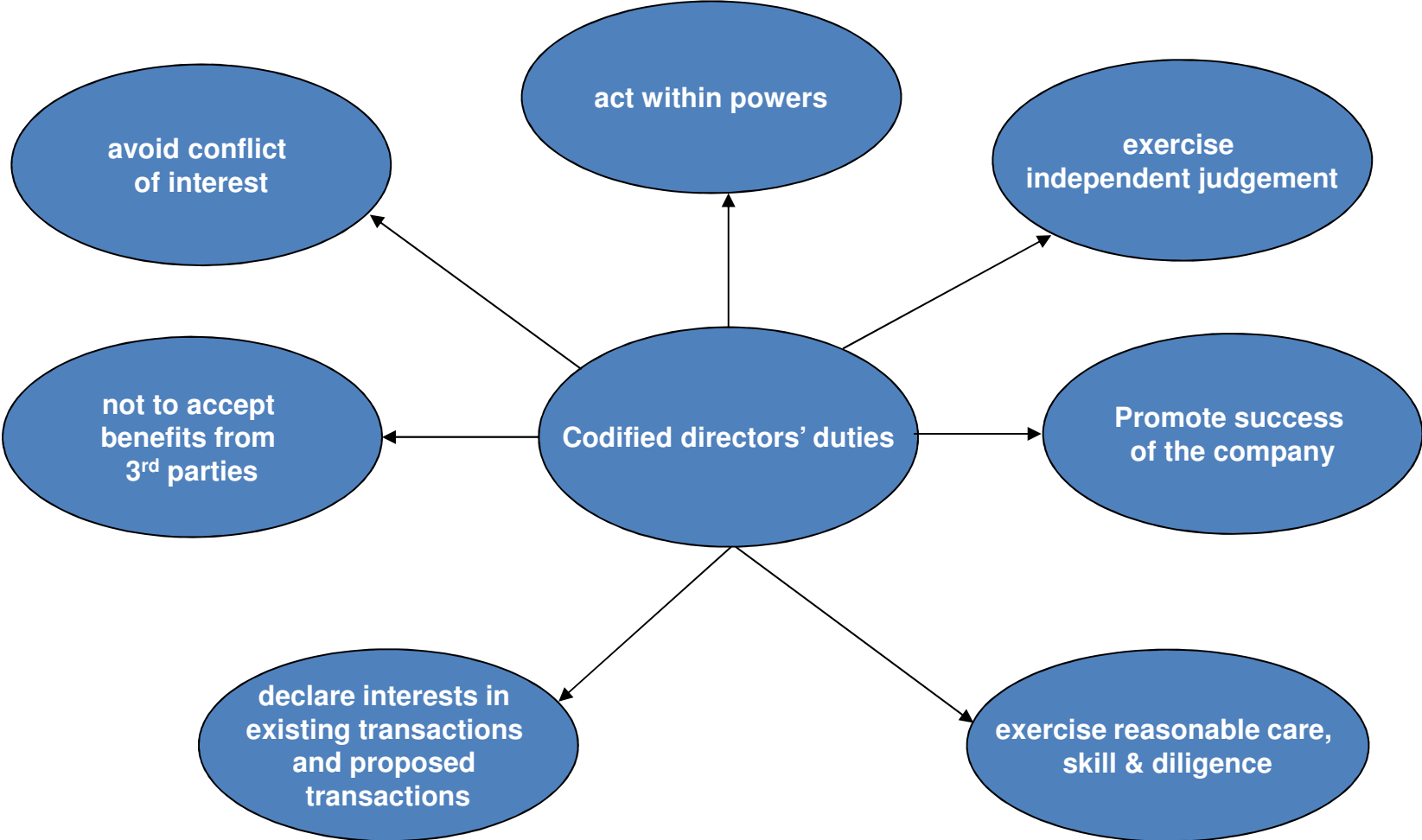
Directors' Duties – Consequences of Breach

**Breach of duty
the consequences**

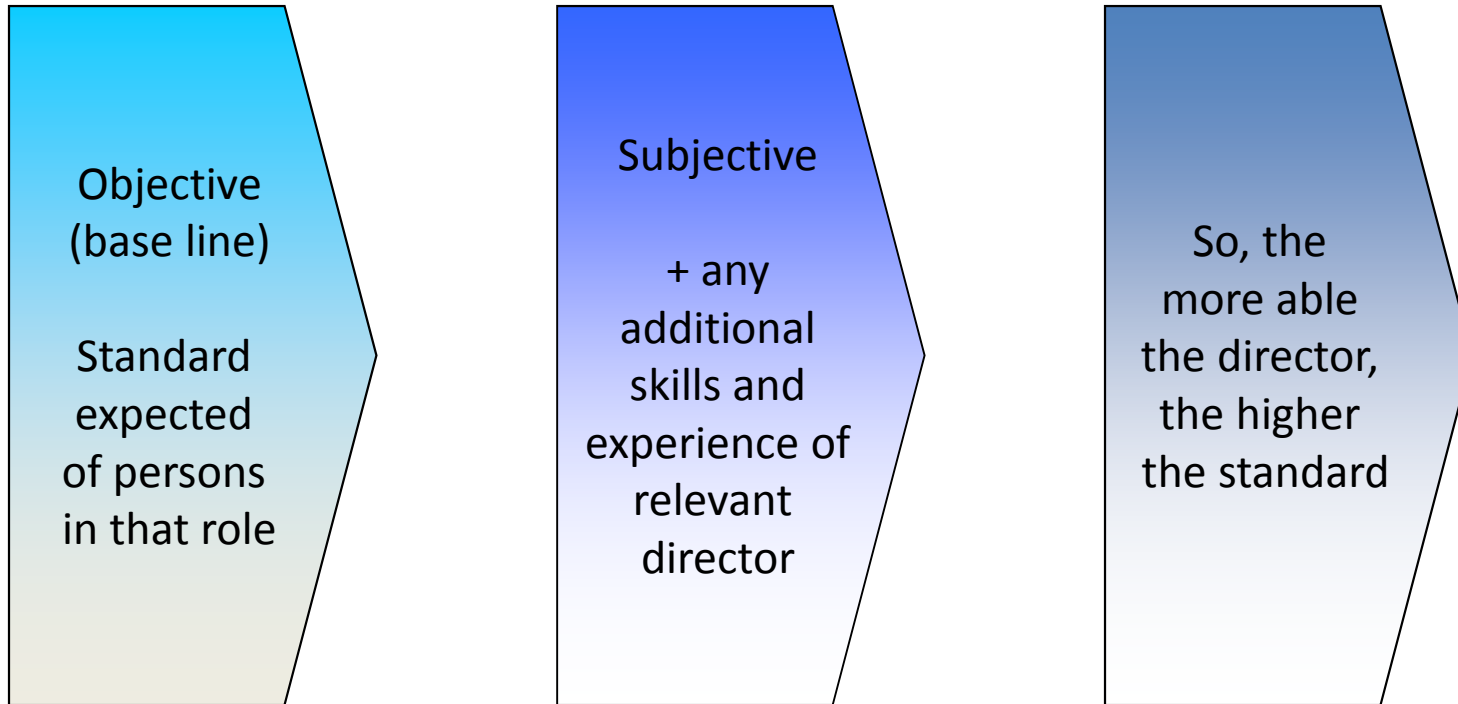
Directors' Duties Owed to the Company

**Duties are owed
to the company**

Directors' Duties - Overview



Duties of Reasonable Care, Skill and Diligence



Duty to Avoid Situational Conflicts – What Does it Cover?

- Applies to a **situation** where interests actually or possibly conflict - directly or indirectly
- Applies particularly to exploitation of company's property, information or opportunity whether or not company could take advantage of it
- Applies to conflict situations arising **on or after 1 October 2008**, situation existing at 1 October 2008 governed by common law

Duty to Avoid Situational Conflicts – Avoiding Breach

1. Situation cannot reasonably be regarded as likely to give rise to a conflict of interest
2. Board authorisation (where possible)
3. Shareholder authorisation
4. Provisions in articles

Transactions with Directors

Transactions with directors

- Duty to **declare** interests
- Substantial property transaction

Declarations of Interest - Overview

Duty to declare the **nature and extent** of interests (direct or indirect) in:

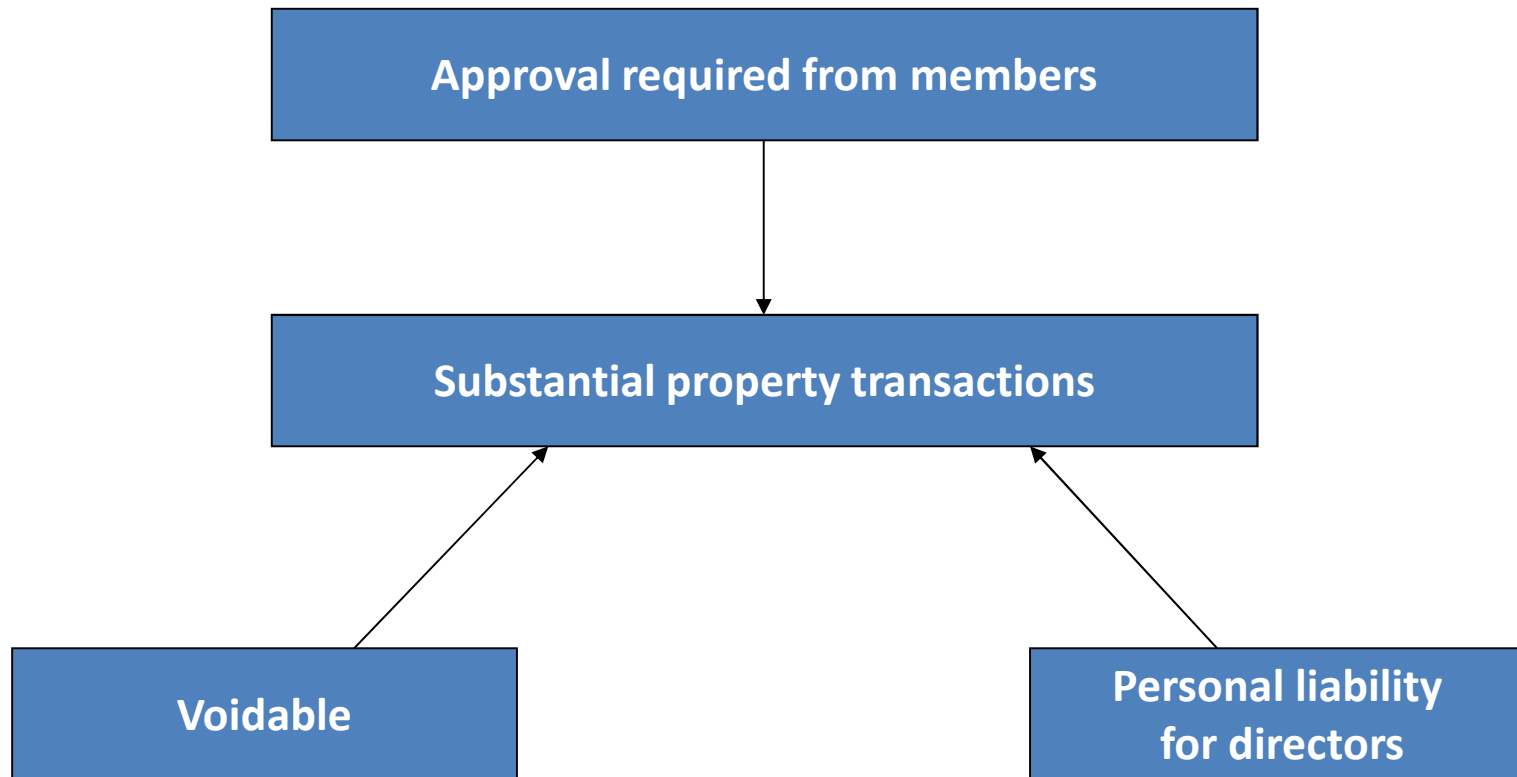
- Proposed transaction or arrangement
- A transaction or arrangement that has already been entered into

Obligation to update the declaration if the interest changes

Declarations of Interest - Exceptions

- Interest cannot reasonably be regarded as likely to give rise to a conflict of interest
- Director not aware of interest (objective test)
- Other directors already aware of interest (objective test)
- Matters which concern a director's service contract
- If interest declared when transaction was proposed does not need to be declared again when transaction entered into

Substantial Property Transactions



Substantial Property Transactions

- Arrangement must relate to:
 - The acquisition or disposal (direct or indirect) of one or more “non-cash assets” (which includes rights over or interests in any property, not just real property)
 - Which are “substantial” – essentially, over £100,000 or if lower, more than 10% of the company’s net asset value (subject to a £5,000 de minimis)
- Provides for the aggregation of non-cash assets forming part of an arrangement or series of arrangements for the purpose of determining whether the financial thresholds have been exceeded so that member approval is required

Substantial Property Transactions

Catches arrangements (not just legally binding contracts) between a company and:

- one of its directors; or
- a director of any of its holding companies; or
- any “connected persons” (which is widely defined) of any such directors

Substantial Property Transactions

Does not catch arrangements:

- (generally) between a company and directors of its subsidiaries
- between a company and a wholly-owned subsidiary or between two wholly owned subsidiaries of the same company
- to extent they relate to entitlements under service contracts or payments for loss of office
- with a member in his character as a member (e.g. share buybacks)

Substantial Property Transactions

- Contravention of the provisions on substantial property transactions makes the arrangement and any transaction entered into in pursuance of the arrangement (by the company or another person) **voidable**
- Irrespective of whether the transaction is or can be avoided, the director or connected person **and any other director who authorised the transaction** will be liable to account to the company for any profit or loss sustained as a result of the breach

Registering Transactions, Why Bother?

- Alert third parties to your interest in the Intellectual Property Right (IPR)
 - Simplify assertion of ownership
 - Potential licensees know who to approach
- Prevent delay in raising infringement actions or search and seize orders
- Non-registration (or delay) may affect award of damages or costs
- Registration can prevent the proprietor or former proprietor purporting to grant incompatible rights in the future.

Optimise Process of Registration

- Optimise the speed of registration
- Minimise cost of registration and relevant to size of transaction

Hurdles to Optimisation

- Language
- Tax payable on transactions
- Transaction document contains commercially sensitive information
- Various requirements for documentation used for registration
 - Original/Copy?
 - Legalisation requirements?
- One of the parties to the transaction may later vanish or be difficult!

Addressing Hurdles – Vanishing or Difficult Party

- Get transaction registered ASAP
- Include obligation in transaction for both parties to complete all further documentation required for registration purposes

Addressing Hurdles - Language

- Prepare a multi-lingual transaction document
- Minimise the size of the transaction document
 - Head agreement with IP transfer in separate side agreement

Addressing Hurdles - Tax

- Attribute proportion of consideration in transaction to each IPR in each country
- Consult local tax experts to see if actions can avoid this requirement

Addressing Hurdles – Commercially Sensitive Portions

- Head agreement with IP transaction in separate side agreement
- Prepare redacted version of transaction document

Addressing Hurdles – Documentation Requirements

- Prepare multiple original transfer documents
- Prepare a Head agreement, with a side agreement for each country and IPR.
- Understand the countries of importance and the legalisation requirements in advance
- Make sure IPR are fully and precisely defined in the transfer document
- Get signature of both parties to the transaction

Questions?



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Thank You!



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