Mishcon Deals

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Intro

Welcome to the fifth edition of "Mishcon Deals".

In this issue we look at Retention of Title Clauses, the introduction of the Confidentiality Order for director's residential addresses, as well as the creation of the Company Names Tribunal and much more.

We hope that you find this edition useful.

Act Now

1 October 2009 sees the introduction of the remaining provisions of the Companies Act 2006 and there are a number of pertinent changes that may affect how your company is run. For example:

New Model Articles

A new set of model articles has been introduced for both private and public companies and these articles will automatically apply to companies incorporated on or after 1 October 2009, to the extent not excluded. Existing companies will continue to be subject to the relevant Table A provisions.

The model articles for private companies have been drafted for use by small owner-managed businesses and may not be appropriate for your particular business model.

Companies House Records

Companies House will no longer publish directors' residential addresses and instead will include a service address of your choosing, for instance your company's registered office. Although you will still be required to file a residential address, it will no longer be searchable on the Companies House website and this will offer an added layer of protection to those directors concerned about anonymity. (For full article please see Confidentiality begins at home in this edition).

Business Names

The raft of restrictions on business names as set out in the Business Names Act 1985 will apply not only to UK Companies but to non-UK companies trading in the UK.

Restrictions include prohibition on the use of sensitive names or names likely to mislead the public and a list of business names that may require the approval of the Secretary of State or other relevant authority. (For full article please see The Company Names Tribunal in this edition).

Share Buybacks

There will no longer need to be a specific authorisation in a company's articles for it to purchase own shares and the requirement for directors to make a statutory declaration on the company's financial position is replaced with a directors' statement. Please note that the range of liabilities the directors must consider when making this statement are wider than that required for a statutory declaration.

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Retaining Title to Goods

How best to protect your corner

The economic crisis has created a volatile climate for doing business, and in the event your business involves supplying goods or materials to a third party, it is worth considering whether you are sufficiently protected in the event that the third party goes bust before paying.

In the good times, with buoyant cash flow, contract provisions were rarely scrutinised. Unfortunately, we are seeing an increase in disputes between suppliers and liquidators over retention of title and in many cases these provisions have been found wanting.

Retention of Title Clauses – Necessary but not foolproof

A seller will generally wish for title to pass to the buyer only once payment has been received for goods supplied and a robust retention of title clause should be included in all supply contracts. The purpose of a retention of title clause is to give the seller priority over other creditors in the event that the buyer becomes insolvent. It is worth bearing in mind, however, that the clause itself is not foolproof. There are a number of steps you should consider which, taken together, will ensure the best protection possible.

We advocate a three-pronged approach: Know your buyer, know your contract and know your premises.

Know your buyer

No retention of title clause can replace doing proper due diligence on your buyer before contracting. It is far preferable to get comfort that your buyer is financially viable to begin with, than to wrestle with this later down the track.

To that end, audit the buyer as far as possible prior to contracting, continue to monitor his financial standing and, were it to change, think about either reducing credit (in amount and/or time) or taking other forms of security, such as a charge over assets or insurance.

Know your contract

If the product is being supplied in the UK then the likelihood is that you will have a contract governed by English law. If the product is being supplied abroad, it is extremely important that you have taken advice from local lawyers to ensure that whatever retention of title provisions you have are enforceable not only in the UK, but in the local jurisdiction.

Similarly, it is also prudent to run your retention of title provisions past your auditors to check that they are comfortable with them. Bearing in mind goods supplied and yet to be paid for will sit on your company books as debt, your auditor will want comfort that this debt is 'good' and collectable.

The retention of title clause should refer to both legal and beneficial title being retained. It must be produced to, and accepted by, the buyer before contracting in order to be effective. It must not, therefore, be given to the buyer on delivery of the goods as part of standard terms and conditions or accompanying the invoice, as by this time, the moment of contracting will have passed.

It is also important that the clause is kept simple to avoid being deemed so onerous that the clause in effect creates a charge over assets, a situation which may render the contract void as it will not have been registered at Companies House.

Other useful additions to your contract provisions may include:

- an obligation on the buyer to store your goods separately and to label them as such;
- a right to enter premises periodically for inspection;
- a list of insolvency events, including failure to pay on time, which would allow you to demand payment and enter premises to repossess goods.

As a final point, retention of title clauses do need reviewing periodically as case law develops quickly in this area. To that end, it is prudent to diarise a review of terms as part of an annual company audit and, at this stage, to seek advice from your lawyers to ensure that your retention of title provisions are enforceable.

Retaining Title to Goods ...Continuted

Know your premises

Retention of title clauses must not be seen as a replacement for a company's adequate risk management strategy. As part of this, and having built in the powers to do so into your contract terms, it is important to physically monitor your buyer's compliance with terms. Where practical to do so, visit storage facilities to ensure your goods are kept separately. If goods are shipped abroad, employ an agent to do the same at all distribution points. Ensure that goods are clearly identifiable – with reference either to your company or, more specifically, that goods are marked with the relevant invoice numbers.

Special care must be taken where it is intended that your goods are to be merged with other goods before they are sold on by your customer, as a standard retention of title clause will not protect you in these circumstances.

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Confidentiality begins at home

Keeping residential address of Directors out of the Public Domain

Current Position

Since 2002, directors who reasonably fear that they may be at risk of violence or intimidation as a result of their directorship of a company, (for example as a result of the nature of the business of this company - life sciences, animal testing etc), have been entitled to apply for a Confidentiality Order preventing the publication of their residential address in any documentation held at Companies House (which is available for public inspection). Since their introduction, there have been approximately 20,000 successful applications for Confidentiality Orders.

Obtaining a Confidentiality Order

In order to obtain a Confidentiality Order any individual that is or proposes to become a director or secretary of a company (an "Officer") must show that public availability of their usual residential address creates, or is likely to create, a serious risk that they or a person that lives with them, will be subject to violence or intimidation. The applicant will need to provide evidence as to the risks they are exposed to, whether as a result of the activities of the company or as a result of their profile, for example an individual who has had past or present links with the security services.

Upon receipt of the application, the department acting on behalf of the Secretary of State may refer the Confidentiality Order application to the police or other relevant authorities for evaluation of the risks and the evidence submitted. Needless to say, any application must be well substantiated. Once it has been determined that there is a genuine risk to the Officer or proposed Officer, a Confidentiality Order will be granted for an initial period of five years (which can be extended) and the Officer will be entitled to register a service address as opposed to a residential address with Companies House (usually the registered office of the Company).

Newly Formed Companies

When making an application for a Confidentiality Order in respect of a newly formed company, obtaining satisfactory evidence for the Confidentiality Order is more difficult. The Officer must provide evidence that the proposed business of the new company puts them at a risk of violence or intimidation. The Officer should seek to use evidence of the activities of any group companies which will support the application or where this is not applicable, examples of any other companies which are involved in the same or similar business, whose Officers are subjected to intimidation and/or violence.

Changes with effect from October 2009

From October 2009, all Officers of a Company will have a statutory right to provide a service address rather than a residential address to be registered and available to the public on the Companies House Registry. The requirement to provide the Registrar of companies with a residential address will still exist, however the residential address will not appear on the public registry and will only be available to pre-determined organisations such as public bodies and credit reference agencies. Some Officers may feel that the availability of their residential address even to the pre-determined organisations, also presents a risk to their safety. Therefore an application for a Confidentiality Order can still be made to the Registrar, broadly on the same basis outlined above, to prevent the residential address being available to any organisation.

It is important to note however that neither the obtaining of a Confidentiality Order nor these new provisions, give Companies House the power to amend forms that have already been made available on the public registry. Therefore forms already submitted to Companies House, including annual returns and Form 288a's will still be available for public inspection.

Confidentiality begins at home ...continued

Should you consider obtaining an order?

Officers of companies who do feel at risk, may wish to obtain a Confidentiality Order between now and October 2009. This is relevant in particular, where an Officer is changing residential address and wishes to take the opportunity to prevent these new details from being accessible to the public, or an individual is being appointed as an Officer of another company which they believe may put them at increased risk. If an application is made and granted between now and October 2009, no further application will need to be made in October 2009 and, the Officer will have the benefit of preventing the above-mentioned pre-determined organisations from obtaining residential address details.

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The Company Names Tribunal

A summary of the first decisions of the Tribunal

In the third issue of Mishcon Deals we reported on the creation of the Company Names Tribunal ("CNT"). The CNT was established as an alternative to litigation (whether in the form of trade mark infringement or passing off) to adjudicate on what could be called 'opportunistic' company name registrations. The first decisions to come from the CNT make interesting (and entertaining) reading.

To summarise briefly, the regime is similar to the now well known domain name dispute resolution procedures, which are managed by the various domain name registration bodies. The key elements are that the applicant needs to present evidence that:

- they have some goodwill and/or reputation in the name; and
- the respondent has registered the company name opportunistically, or in bad faith.

Set out below is a brief summary of the decisions from the beginning of December 2008 to the beginning of March 2009: (see table below)

The applicants in the cases in the table could hardly fail to succeed but it is good to see the system is working and you have to give full marks to "Coke Cola Limited" for bare faced nerve. It is interesting to note the application by EFG Bank was successful where the name objected to – Eurobank OJSC Ltd - is arguably less distinctive than the others.

It will be interesting to monitor the decisions of the Tribunal when faced with less clear cut cases.

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Applicant	Respondant	Company Name	Outcome	Date Issued
Adecco UK Ltd	Adecco UK Recruitment Limited	Adecco UK Recruitment Limited	Applicant successful	3 March 2009
Tritax Securities 1 Limited	Tritax Limited	TRITAX LIMITED	Applicant successful	20 February 2009
EFG Bank European Financial Group SA	Euro OJSC Ltd	EUROBANK OJSC LTD	Applicant successful	22 January 2009
Harrods Limited	Harrods Limousine Limited	Harrods Limousine Ltd	Applicant successful	16 January 2009
Zurich Insurance Company	Zurich Financial Special Risk Limited	Zurich Risk Transfer Ltd	Applicant successful	12 December 2008
Zurich Insurance Company	Zurich Financial Special Risk Limited	Zurich Financial Special Risk Limited	Applicant successful	12 December 2008
The Coca-Cola Company	Coke Cola Limited	Coke Cola Limited		3 December 2008

Employee Inventors

The first ever award to employee inventors under S.40 of the Patent Act 1977

It has been a long time coming (32 years), but finally we have a decision where the Courts have awarded compensation to employee inventors.

What is important to understand about Section 40 of the Patent Act is that there is no question that the invention in question arose out of their employment, i.e. during the employees' normal duties or during tasks specifically assigned to them. For that reason, to qualify for compensation beyond the payment they received for that work by employees they have to show that the benefit to the employer derived from the patent (or after 2005, the patent or the invention) which relates to the invention has been outstanding.

In the case of Kelly & Chiu v. GE Healthcare Ltd, the inventors synthesised a compound which formed the basis of a radioactive imaging agent and which was a highly successful product for the employers. In this case it was established that not only was the product very successful but also that the patent was instrumental in restricting generic products from entering the market and provided additional benefits. Importantly, it was decided that these benefits were beyond what could reasonably have been expected from those employees, notwithstanding that they were engaged in research and development duties. As a result, Dr Kelly was awarded £1million and Dr Chiu £0.5million.

The case gives a useful summary of the law in this area. The full details are too lengthy and detailed for this bulletin, but the following factors are a useful guide.

- Section 40 of the Patents Act can apply to both the invention and the patent, although in this case the existence of the patent provided a lot of the benefit;
- "Outstanding" means something out of the ordinary and indeed more than just substantial. It had to be more than one would normally expect to arise from the duties of the employees. Moreover, in assessing the extent of the benefit regard must be had to the size and nature of the employers undertaking;
- It is useful to consider the likely position of the company without the patent;
- The patent must have been a cause of the benefit obtained by the company, but need not be the only cause;
- The amount of compensation is to secure a just and fair reward to the employee.

In conclusion, it is good to finally have some judicial guidance on this area of patent law and the awards will at least give a benchmark to assist in assessing other possible applications. However, this is only guidance and other cases will turn on their own facts.

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Is it time to close your offshore bank account?

Recently, the Financial Times ran a story about British investors being asked to close their accounts in Lichtenstein. "Thousands of British investors with up to £3bn stashed in secret Liechtenstein bank accounts will be asked to come forward voluntarily under a deal to be negotiated next week that could be the first of many worldwide."

"Lichtenstein banks would be asked to shut down the accounts of customers who do not take up the Revenue offer and one of the big four accountancy firms would be asked to verify that the undeclared accounts had been purged."

"Lawyers said the Liechtenstein plan (the "Plan"), discussed behind closed doors with the Paris-based Organisation for Economic Co-operation and Development ("OECD"), could serve as an international model for other tax havens seeking to avoid an OECD blacklist." (Financial Times, 27.03.09, click here for full article).

If this is the future model for other tax havens, is it time to close all offshore bank accounts and does it mean the end for offshore private banking. As usual, the devil will be in the detail.

The effectiveness of the Plan will directly reflect the Lichtenstein authority's attempts to prevent an OECD black-listing and the preservation of its banking system. In addition, the extent to which Lichtenstein accepts the obligations of closing bank accounts will set the bar for what other offshore jurisdictions will be forced to accept if they wish to stay off the OECD black-list.

If previously signed exchanges of information agreements are any measure of the effectiveness of the Plan between Lichtenstein and the OECD, its impact on reducing the use of offshore private bank accounts will be negligible. Historically, offshore tax havens have agreed to release information about beneficiaries who, the onshore authorities can show, have committed tax related offences in their home country. This usually means a conviction which in itself has proved difficult as the necessary information was often in offshore jurisdictions, and the process inevitably lengthy. The terms of these agreements also prevented fishing expeditions by onshore authorities hoping to catch citizens that failed to pay tax.

It has been suggested that in terms of the Plan, Lichtenstein will appoint one of the "big four" accountancy firms to verify that the undeclared bank accounts have been purged. Once again, it will depend on the details, but an independent body reviewing the work will this gives the Plan greater credibility and a greater impact.

It is intended that the Plan will oblige Lichtenstein to close the bank accounts of British investors who do not accept the Revenue's offer. While this depends on the definition of a British investor, most investors who have money in offshore jurisdictions (or at least the high net worth individuals) do not have bank accounts in their own name. Rather, the account would be in the name of an offshore company or trust that would be used as part of an estate planning structure. If Lichtenstein authorities intend to apply the rules solely to bank accounts held by British investors, it will exclude the majority of bank accounts, at least by value.

However, whether it is British investors or the structures they use, the greater concern is that the Liechtenstein authorities intend agreeing, in the Plan, to proactively shut down the accounts of customers who have not voluntarily accepted the Revenue's offer. This would effectively make the Liechtenstein authorities an enforcement agency of the Revenue which would mark a very different relationship between onshore and offshore jurisdictions. More worrying is that other offshore jurisdictions will not be allowed to negotiate lesser obligations, and the establishment of this new onshore-offshore relationship may very well jeopardise the future of offshore private bank accounts.

Britons with offshore bank accounts will need to keep a close eye on the negotiations and resulting terms of the Plan. If the Plan contains the terms discussed above, accepting the Revenue's offer will be a lot more attractive, and less

Is it time to close your off-shore bank account? ...Continued

costly, than waiting for the Lichtenstein authorities to close your bank account.

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