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Company Commercial Notepad - February 2012

1. Cookies: Is Your Website Compliant?

In June 1994, the first 'persistent client state object' - a bland and opaque choice of words which would have made many a lawyer proud - quietly came into being. It had been lovingly crafted by Lou Montulli, a talented programmer for what was to become Netscape Communications. Later, he wisely started to use the snappier term 'cookie' to describe his game-changing invention.

Prior to 1994, every visit to a website was like the first - with no automatic way to record that a visitor had dropped by before. After that date, the use of cookies meant that websites no longer had amnesia. A website, by placing a small packet of data on your computer, could begin to recognise you and track your surfing habits. Clicking on the cold and flu page on a healthcare site? Be prepared to have an undisclosed cookie added to your machine and to find yourself being targeted by advertisers selling all manner of exotic remedies. In essence, giving the web a cookie-related memory has cost its users a degree of their privacy.

So whilst the childlike word, cookie, may conjure up sweet thoughts of soft, gooey biscuit, the European Commission is not quite so smitten. The Commission in 2009 revised the 'E-Privacy Directive' (2002/58/EC) which has brought in a much tougher regime on the use of (non-biscuit based) cookies. Whilst businesses have been using them pretty much unhindered for some 18 years now; from 26 May 2012 the UK's enforcement agency, the Information Commissioner's Office ("ICO"), is likely to 'throw its weight around' a bit more. Enforcement for non-compliance with the new cookies law will undoubtedly increase. Your business and your website may be at risk.

Effectively, the new regime is that the use of cookies is only allowed if the user concerned:

- has been provided with clear and comprehensive information about the purposes for which the cookie is stored and accessed; and
- has given his or her consent (there are a small number of limited exceptions to this rule).

To comply with this law, many businesses are following recent ICO guidance. You should therefore consider the following steps:

- check what type of cookies and similar technologies you are using and how you use them. This might be by way of a comprehensive audit of your website or it could be as simple as checking what data files are placed on user terminals and why. You should analyse which cookies are strictly necessary and which might not need consent. This could be a good opportunity for you to clean up your web pages and stop using any cookies that are unnecessary, or which have been superseded as your websites have evolved.
- assess how intrusive your use of cookies is. The ICO explains that the new rules are intended to increase the protection of internet users' privacy. Therefore, you are likely to need to give greater priority to obtaining meaningful consent for your more intrusive uses of cookies, such as those that involve creating detailed profiles of an individual's browsing activity.
- decide on the best solution for you to obtain consent from the users of your website. Possible solutions include the use of terms and conditions, pop-ups and similar techniques, settings-led consent, and website headers or footers.

We will, of course, keep and eye on developments and update this Focus if necessary. The key date, however, is 26 May 2012 by which time your website needs to be compliant.

If you have queries in the meantime, please do not hesitate to contact a member of the Laytons team.

2. Patents: Level of Evidence Required to Demonstrate Industrial Application

In order to obtain a patent, it must be shown that the new discovery is capable of industrial application. Two recent successful appeals arising from the same case, before both the UK High Court and the European Patent Office ("the EPO"), reduce the burden that is placed on patent applicants.

Human Genome Sciences Inc ("HGS") had found a newly discovered molecule which was part of a family of proteins and filed a patent to protect it before any practical use for this discovery had been found.

Eli Lilly and Company ("Lilly") argued before the High Court and the EPO that this action by HGS was invalid as it contravened both the European Patent Convention (as the discovery had no known industrial application) and the Biotech Directive (which requires the industrial application of a gene sequence to be disclosed in a patent application).

The patent applied for by HGS identified the molecule and gave a long list of potential activities and uses for the discovery based, not upon the discovery itself, but on what was known about the other members of the molecule's family.

Both the High Court and the EPO found against HGS. The High Court's reasoning was that there was a lack of industrial application for the discovery as well as a lack of contribution to prior art; the EPO's reasoning was that the discovery lacked any inventive step.

The decisions were appealed and whilst the Court of Appeal found against HGS, the EPO changed its decision and allowed the patent. The UK decision was once more appealed, this time to the Supreme Court

The Supreme Court found that the question at the centre of the case was how far a patent application for biological material had to go in showing an industrial application for the discovery.

The Supreme Court found that the crux of the issue revolved around EPO case law which had found that the disclosure of a molecule's existence, structure and gene sequence as well as the family to which it belonged, when considered alongside the common general knowledge, could be sufficient to establish an industrial application and allow a patent to be granted. Whether a discovery could be used to solve a *particular* problem or treat a *specific* disease or condition should not be the determining factor in the granting of a patent.

Importantly, the Supreme Court found that whilst a speculative reason as to what application a discovery may have is insufficient; a plausible, reasonably credible claimed use or even an educated guess would be sufficient. The Supreme Court also indicated that later evidence which comes to light after an application has been made can assist in proving plausibility.

The effect of the decision is to lower the bar on the level of evidence required to demonstrate the potential industrial application of new discoveries. The Supreme Court tried to reach a balanced position as whilst it could be argued that allowing early filing for patent protection could lead to the creation of monopolies, the more pressing concern was that discoveries could be made that were incapable of patent protection. This could leave research companies unprotected and unable to attract outside investment, as a company's patent portfolio, will often be important in securing investment.

Conclusion

The judgments allow a degree of protection for small and medium-sized companies whilst still confirming that the practical application of a discovery must be beyond mere speculation in order for it to be capable of protection by a patent. The case also brings UK jurisprudence more in line with EPO guidelines, ensuring that UK companies, especially biotech companies, are not disadvantaged when compared to their European counterparts.

3. Commercial: Unenforceable Restraints of Trade - Proactive Sports Management Ltd v Rooney & Others

Background

In *Proactive Sports Management Ltd v Rooney & Others [2011] EWCA Civ 1444, 1 December 2011*. the Court of Appeal considered whether the agreement between Wayne Rooney and his former management company, Proactive Sports Management Limited, was an unenforceable restraint of trade.

The doctrine of restraint of trade provides that individuals and organisations should be free to carry on their trade or business as they see fit. A contractual provision which restricts trade must be reasonable, in relation to the interests of the parties concerned *and* the interest of the public, in order for it to be enforceable, otherwise, the risk is that the entire contract may be unenforceable.

Facts

In January 2003, the footballer Wayne Rooney entered into an image-rights representation agreement ("the Agreement") with Proactive Sports Management Limited ("Proactive"), a sports agency. The Agreement provided that Proactive was appointed by Stoneygate 48 Limited ("Stoneygate"), the company in which Mr Rooney had vested his image rights, as Stoneygate's sole and exclusive representative in relation to the exploitation of Mr Rooney's image rights for a term of eight years. It entitled Proactive to a 20% commission on all relevant contracts and arrangements negotiated by Proactive. The Agreement stated that even after the Agreement was terminated, this commission was to continued to be paid on any agreements arranged by Proactive before termination. At the time the Agreement was entered into, Mr Rooney was 17 years old and did not have independent legal advice.

Proactive had also acted on behalf of Mrs Coleen Rooney and her image-rights company, without any written agreement, and had been paid a commission of 20% in a similar arrangement as Stoneygate.

In October 2008, the relationship between the parties broke down. In December 2009, Stoneygate and Mr Rooney purported to terminate the Agreement and Stoneygate did not make further commission payments to Proactive. Proactive sued Mr Rooney for £4.25 million claiming unpaid commission and for breach of contract. Mr Rooney's defence was that Proactive was not entitled to post-termination commission and that the Agreement was unenforceable because it was an unreasonable restraint of trade.

Decision

The original High Court hearing held that the doctrine of restraint of trade applied to the Agreement: it imposed substantial restraints on Mr Rooney's freedom to exploit his earning ability over a long period of time on terms which were not commonplace in the market and which were not based on commercial negotiations between parties with equal bargaining power. The High Court took into account Mr Rooney's age when he entered the Agreement and the absence of independent legal advice. The High Court also held that Proactive was not entitled to commission on sums which had not been paid by the time the Agreement was purported to be terminated.

Proactive challenged this before the Court of Appeal on three main grounds: (1) the restriction related to commercialising image rights, which is an ancillary activity to Mr Rooney's main occupation as a footballer (and it was not therefore a restraint of his ‘trade''); (2) the Agreement did not restrict Mr Rooney's earning potential but instead facilitated it; and (3) the Agreement could not be considered as unfair and oppressive. Proactive also submitted that where it had procured a contract and had fulfilled its obligations, it was entitled to receive a commission even if payment was received after termination of the Agreement.

The Court of Appeal held that:

1. The exploitation of image rights, or other activities which may be argued to be ancillary to a person's main occupation, is capable of protection under the doctrine of restraint of trade. The fact that the activity is ancillary might make the restriction on trading insubstantial and thus justifiable but this is not a reason for eschewing the doctrine altogether. There is public interest in ensuring that people can reach their full potential, and when this takes the form of endorsement of goods, this has a positive effect on consumption levels, which is generally beneficial to the wider economy.
2. With regard to the issue of restricting or facilitating the ability to earn, an agreement such as the one in question can achieve both at the same time: its purpose may be to exploit image rights and generate wealth, but in doing so it limits the subject's ability to exploit those rights to their fullest potential and can ultimately have a "sterilising" effect.
3. The inequality of bargaining power, as demonstrated by Mr Rooney's failure to obtain independent legal advice, meant that, on the facts, this Agreement could be considered unfair and oppressive.

Conclusion

The decision is significant as the Court of Appeal confirmed that a contract for the exploitation of image rights, or other ancillary activities to a person's main occupation, may constitute a restraint of trade.

If the restraint of trade cannot be shown to protect a legitimate business interest and is found to be unreasonable, having regard to the interests of the individual parties concerned and the public as a whole, it will be unenforceable. Further, if the agreement is drafted in such a way that the offending restraint of trade cannot be ‘severed' from the rest of the contract, the entire contract may be unenforceable.

In *Rooney*, the Court of Appeal found that the entire contract did constitute a restraint of trade and that the offending clauses could not be severed. Importantly, the Court of Appeal emphasised that it is a well-established principle that once a party withdraws from such a contract, the contract is unenforceable. Therefore, once Rooney refused to abide by the Agreement, Proactive could not enforce its contractual right to 20% commission - even if the Agreement stipulated that such payments were to continue after termination of the Agreement.

Where businesses seek to contractually restrain the trade of others they should ensure that such clauses only protect legitimate business interests and that they are no wider than what the courts consider reasonable.

Laytons cannot accept any responsibility for any liabilities of any kind incurred in reliance on this Notepad. For specific advice on these issues, please contact your client partner or one of the team at the addresses set out below:

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