

MEMORANDUM ON ISSUES TO CONSIDER IN THE CONTEXT OF CORPORATE ACQUISITIONS IN RELATION TO DOMAIN NAMES AND WEBSITES OF THE TARGET COMPANY.

Prepared by Simon Halberstam, Head Of E-Commerce Law at Sprecher Grier Halberstam LLP.

General

Each acquisition will have its own particular circumstances and these guidelines will need to be interpreted in the light of those. This memorandum is based on the premise that the ACQUIROR will not wish actively to use the domain names or websites of target companies that after completion of acquisitions.

Different issues would arise should ACQUIROR wish to maintain use of the relevant domain names or associated websites. In any event, the relevant acquisition documentation should provide for transfer of the relevant domain names and websites to ACQUIROR.

Domain Names

Domain Names are not actually owned by the user or registrant. They are effectively a licence from the governing Domain Name registry to use the name during the period paid for. Title to the Domain Name always belongs ultimately to the registry.

As part of the due diligence prior to an acquisition, ACQUIROR should check:-

1. which domain names the target company currently uses;
2. in respect of each of these, who is listed as the registrant and as the "administrative" and "technical" contacts at the relevant Domain Name Registry. Often the actual registrant is a third party such as the website designer through whom the registration was made. This can normally be checked via the "whois" database on the registry's website. If the "whois" report shows that the registrant, administrative or technical contact is a third party, this can cause difficulties and one needs an undertaking from the target to procure the transfer of the relevant domain names to ACQUIROR. This should be backed by an appropriate warranty.

After completion of the acquisition, even if ACQUIROR does not intend to use the domain names transferred to it, it should consider maintaining the registrations to prevent a third party acquiring them after they lapse. If they were to lapse and a third party were to acquire them and then to start using them in such a way as to cause confusion in the market place, it could prove very expensive and complex for ACQUIROR to take legal action to try to recover them or stop the new registrant from using them.

In the appendix below, we set out some standard clauses that may be of assistance to ACQUIROR in the context of an acquisition in relation to domain names. Obviously, the suitability and relevance of such clauses would have to be assessed on a case by case basis and, even if relevant, the clauses would need to be adapted to fit in with the acquisition documentation.

Websites

The ownership of these is more complicated. We are fundamentally talking here about copyright in a wide range of different elements of the website. For example, there may well be different owners of the copyright in the graphics, photographs, text and any soundtrack.

Assuming that ACQUIROR does want to close down the website, this should not be an issue. However, it is worth briefly considering the question of who owns the copyright in the different aspects of a website.

This can usually be determined by applying principles of employment and contract law. The starting point with copyright is that the person who created the work in question is the owner. However, if he/she performed this work in his/her capacity as an employee of a company, then the employer will be the owner. In this context, one needs to distinguish employees from independent contractors. Many web designers are freelancers who are not employees. If a freelancer designs a website, then it is the freelancer who would be the owner of the copyright.

If the individual or company that designed the website did so under the auspices of a written contract with the target company and that contract provided for assignment of the copyright in the website to the target company, then it will be the target company that is the owner.

As a general point, whenever ACQUIROR itself commissions the creation of or modifications to a website, it should always do so under the auspices of a contract which provides, as far as possible, for the transfer of intellectual property rights to ACQUIROR.

APPENDIX
MODEL DOMAIN NAME CLAUSES IN CONTEXT OF AN ACQUISITION

NB - Contractual Clauses must be tailored to fit every specific situation thus the ones below are not suitable for incorporation into any agreement without prior assessment of suitability and appropriate modification.

1. Covenants Of Vendor

The Vendor covenants with the Purchaser as follows:

1.1 that it has the right to sell and transfer all rights title and interests in and to the Domain Name on the terms set out in this Agreement; and

1.2 that it will at its own cost and expense, do and execute (or procure to be done and executed by any other necessary party) all such acts and documents which may be necessary to confirm the title of the Purchaser to the Domain Name as the Purchaser may from time to time require in order to vest the Domain Name in the Purchaser or as may be necessary to give full effect to this Agreement.

2. Vendor's Warranties

The Vendor warrants to the Purchaser that:

2.1 there is no contract, commitment, option or any other right of any person binding upon, or which at any time in the future may become binding upon the it to sell, transfer, assign, license or in any other way dispose of or encumber the Domain Name other than pursuant to the provisions of this Agreement;

2.2 the use of the Domain Name by the Vendor does not and has not infringed or violated the intellectual property rights of any third party and no third party has infringed or is infringing or otherwise violating any of the Vendor's rights in the Domain Name;

2.3 it is the sole beneficial and registered owner of the Domain Name with good and marketable title thereto, free and clear of any licence, lien, charge or encumbrance and that it has the right to sell, transfer, and convey the Domain Name to the Purchaser.

This article was written by Simon Halberstam, head of IT and E-Commerce law at Sprecher Grier Halberstam LLP, Solicitors.

For further information, contact Simon on 020 7264 4500 or by email to simonh@sghlaw.com.

© This article is copyright Sprecher Grier Halberstam LLP.2008 and should not be construed as legal advice or opinion in any specific facts or circumstances. The contents are intended for general information

purposes only. You are urged to contact a suitably qualified lawyer for specific advice.