

# A SUB-LICENCE IS CAPABLE OF SURVIVING TERMINATION OF THE HEAD LICENCE



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In *VLM Holdings Limited v Ravensworth Digital Services Limited* [2013] EWHC 228 (Ch) Mr Justice Mann decided that in certain circumstances a sub-licence is capable of surviving the termination of a head licence. He also went on to consider the effect of that on an exclusive licence subsequently granted by the head licensor.

The decision will be of application to licences of all types of IP rights. It will be of interest to insolvency practitioners as well as IP practitioners because the head licence was between parent and subsidiary and the termination arose as a result of the financial difficulties of the subsidiary.

The judgment can be accessed at:

<http://www.bailii.org/ew/cases/EWHC/Ch/2013/228.html>

## The facts

The claimant (“Holdings”) owned the copyright in some software which facilitates online printing services. It granted an informal licence to its subsidiary (“UK”) to exploit the copyright.

UK granted a licence to use the software to an estate agency (“Spicerhaart”) so it could use it to print its property particulars and other documents. Spicerhaart obtained printing services from UK, but wanted the licence and a right to host the software to protect itself in case supplies from UK were disrupted.

UK went into liquidation and Holdings terminated its informal licence under the copyright in the software. Holdings then granted an exclusive licence in respect of the software to the defendant (“Ravensworth”), another printing company.

Ravensworth sought to exploit its copyright in the software, including by requiring Spicerhaart to purchase printing generated using the software from it. But Spicerhaart said that it already had a licence from UK, and did not need authorisation from Ravensworth.

Ravensworth complained to Holdings that the existence of Spicerhaart’s sub-licence negated its own exclusivity, and claimed that was a material breach of the terms of the exclusive licence. It terminated the agreement with Holdings on the ground of that breach. Holdings then made a claim against Ravensworth for breach of the agreement, and Ravensworth counterclaimed for breach by Holdings.

The key issue in the case was whether Spicerhaart’s sub-licence survived termination of the head licence from Holdings to UK. If the sub-licence survived, Holdings was in breach of the terms of its exclusive licence to Ravensworth.

## The decision

The judge rejected Holdings' contention that a sub-licence automatically terminates upon termination of the head licence by application of the maxim *nemo dat quod non habet*. He said that since a licence was a permission to do something that would otherwise be unlawful, the answer depended on a number of factors, including the terms of the head licence, the terms of the sub-licence and consideration of what was actually terminated.

The judge held that on the facts the authority impliedly granted from Holdings to its subsidiary UK was sufficiently wide to allow the grant of a sub-licence to Spicerhaart which was capable of surviving the termination of the head licence to the UK. In making that finding, the following facts were of particular relevance:

- (1) Holdings and UK had common directors.
- (2) UK was the trading company, and Holdings' directors allowed or procured that it did what was necessary to exploit the software.
- (3) Spicerhaart's sub-licence was something that the directors of both UK and Holdings wished to have in place to further the business of UK and to exploit the software.
- (4) Both Holdings and UK knew that the purpose of Spicerhaart's sub-licence was to protect Spicerhaart from disruption to its use of business critical software. If Holdings could terminate Spicerhaart's sub-licence at will by terminating the informal licence to its subsidiary this purpose would be frustrated.
- (5) The sub-licence itself described UK as the owner of the copyright. The directors of Holdings allowed UK to make that statement and were content that it should do so.

Spicerhaart was unaware that the subsidiary was not the actual owner of the copyright. The judge therefore held that Holdings was to be treated as an undisclosed principal, and on normal agency principles the permission to Spicerhaart was to be treated as a permission by Holdings, as well as by UK.

The judge also said that the case could be analysed as one of estoppel. Holdings allowed UK to include a recital in Spicerhaart's sub-licence stating (incorrectly) that UK was the owner of the copyright, and generally to behave as though it was the owner. Holdings was therefore estopped as against Spicerhaart from asserting its ownership free of a licence to Spicerhaart.

Each of those analyses had the effect that termination of the informal head licence between Holdings and UK did not affect Spicerhaart's licence under the copyright in the software.

The judge therefore concluded that the Spicerhaart licence survived, and that Holdings was in breach of its agreement with Ravensworth by failing to give Ravensworth the exclusivity agreed.

The successful defendant was represented by **Michael Hicks of Hogarth Chambers**.

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