

IP & IT analysis: When can comprehensive intellectual property rights enjoyed over a certain work be tantamount to a right to delivery up of it? Phil Smith, partner at Pitmans LLP, considers the decision in FilmFlex Movies Ltd and says such rights can look virtually indistinguishable from absolute ownership.

FilmFlex Movies Ltd v Piksel Ltd [2015] EWHC 426 (Ch), [2015] All ER (D) 281 (Feb)

The claimant company provided video-on-demand movie streaming services. The defendant company was a video broadband software designer and developer and a managed services provider. The claimant applied for an order for the delivery up of source code and related documentation, which was held by an escrow agent. The Chancery Division, in determining a preliminary issue, held that, on the true construction of the contractual arrangements and on the facts, the claimant was entitled to delivery up of the source code by the defendant and entitled to require the defendant to procure the delivery up of the source code by escrow agents, which held the code.

What key issues did this case raise?

The claimant, FilmFlex, is a provider of video-on-demand streaming services, provided through an online content delivery platform which was designed, built and maintained for it by the defendant, Piksel, a company providing video broadband development services.

The dispute concerned the proper construction of two related agreements between the parties: a Master Services Agreement (MSA) entered into in June 2012, and a subsequent Escrow Agreement made between FilmFlex, Piksel and a third party Escrow Agent, concluded in November 2012.

Considerable work was done to the platform by Piksel, for which Piksel was paid fees totalling over £7m. In 2014, FilmFlex sought to part company with Piksel and appoint a new developer in its place, as it had the express right to do under the terms of the MSA.

The difficulty FilmFlex faced was that it did not hold a copy of the source code to the platform (or at least, not in any functionally useful format). The parties fell into disagreement over FilmFlex's entitlement to receive such a copy, and proceedings ensued.

FilmFlex applied for an order for the delivery up of source code by Piksel, and an order compelling Piksel to instruct the escrow agent to release a copy of the same. FilmFlex advanced three alternative contractual arguments in its pursuit of the source code:

- that it had a right to the release of the source code in escrow (and to require Piksel to join in an instruction to the Escrow Agreement to this effect) because a trigger event specified in the MSA had occurred, namely the appointment by FilmFlex of a third party to provide the services that Piksel had been providing

- that it had a direct right as against Pikel to access the source code under what it characterised as a catch-all term which stated (rather promisingly) that Pikel 'acknowledges and agrees that [FilmFlex] will have access to the source code (and [Pikel] shall reasonably co-operate in the provision of such access) throughout the term of this Agreement upon the [FilmFlex's] request'
- that it had an entitlement to a copy of the source code by virtue of a combination of ownership (of one part) and a comprehensive licence (over the other part) of the intellectual property rights in the platform

Pikel argued that the only circumstances in which the source code would be delivered up to FilmFlex were the release events set out in the Escrow Agreement, and none of the circumstances described there had arisen.

What did the court decide and does the judgment help clarify the law in this area?

The court found in favour of FilmFlex on all three of its arguments and held that, on a true construction of the contractual arrangements and on the evidence, FilmFlex was entitled to delivery up of the source code directly from Pikel. It was further entitled to require Pikel to join with FilmFlex in instructing the delivery up of the source code by the Escrow Agent.

On the first issue, the key point for the court to decide was how the (longer) list of circumstances in which the source code would be released appearing in the MSA should be reconciled with the (shorter) list of such trigger events set out in the later Escrow Agreement.

The judge gave short shrift to Pikel's argument that the comprehensive terms of the MSA had been superseded by the conclusion of the Escrow Agreement. She was especially persuaded by the fact that the terms of the Escrow Agreement were based on the escrow agent's standard printed terms and conditions, which were already held by the parties whilst they were negotiating the MSA.

Although there were some discussions about changes to the standard terms after the execution of the MSA, these did not include the release events for the source code. The judge concluded that there was nothing in the evidence to indicate to an objective observer that the parties intended, when the Escrow Agreement was signed, that the only circumstances in which FilmFlex could obtain the release of the material from the escrow account were those included in the escrow agent's standard terms. The mere fact that the Escrow Agreement came after the MSA was signed did not, in the judge's view, mean that its terms ousted the terms of the MSA.

Pikel fared no better with its attempts to re-characterise the catch-all provision for FilmFlex to request the source code. Its argument that, by virtue of its location in the MSA, the catch-all clause should be treated as just another release event (which was then superseded by the terms of the Escrow Agreement) failed for the reasons above.

More interestingly, Piksel took the point that the clause only referred to FilmFlex having 'access' to the source code, not to have delivery up of a copy of it, and that the most that they were obliged to allow FilmFlex to do under that clause was look at the source code on Piksel's servers. In answer to this, the judge held that a right of 'access' to something must depend on the nature of the thing and the purpose for which that access is given. If a contract gives one party access to certain material, and (as here) the scope of that material is defined as including everything necessary to carry out certain activities, then it makes sense to construe the access granted as including whatever access is needed in order to carry on those activities. Accordingly, if FilmFlex wanted to use, reproduce, modify or enhance the software, they must not only be able to look at the source code (which was said to comprise about three million lines of code) but also have a copy of it that they could use.

In deciding the third argument, the judge had to consider the effect of the split ownership of the intellectual property rights in the source code. The platform as it stood before 24 June 2011 belonged to Piksel and was licensed in very wide terms to FilmFlex, whereas the source code created after that date belonged to FilmFlex and was licensed in much narrower terms to Piksel. Did that combination of ownership and licence entitle FilmFlex to a copy of the source code for the whole platform?

The judge held that it did. The licence allowed FilmFlex to carry out various activities in relation to the licensed intellectual property rights which could only sensibly be carried out if FilmFlex had a copy of the source code to use itself. Hand in hand with that licence was an entitlement for FilmFlex to receive 'physical Page 3 delivery up' of the source code. The judge was not persuaded by Piksel's argument that such a measure would be tantamount to ownership--the source code would not be surrendered by Piksel once it provided a copy to FilmFlex, as it would remain intact on Piksel's system. Importantly, although it is possible to have many copies of source code held by different people, FilmFlex did not have a copy even though it owned the intellectual property rights in part of the platform, and had an extensive licence to use other parts. In short, if FilmFlex is entitled under its rights of ownership under cl 9.2 or its licence under cl 9.1 to make a copy of the source code but the only copy which currently exists is with the other party to the contract, then the other party must give FilmFlex a copy so that FilmFlex can itself make a copy of it.

Are there any common issues that should be clearly addressed in licensing agreements?

This case is a useful reminder of the need to ensure that all those involved in the negotiation and drafting of such agreements are fully familiar with the technical terms in play, and in particular that defined technical terms are properly integrated with the other operative provisions of the agreement. The case also underlines the importance of ensuring that two agreements covering some of the same points sit coherently next to each other and do not contain inconsistencies that leave scope for argument.

What should lawyers advising in this area of law take note of?

This decision was primarily a fact-specific analysis of two bespoke agreements. The most interesting legal point emerging from it is the judge's analysis on the circumstances in which comprehensive intellectual property rights enjoyed over a certain work--particularly if that work is incorporeal--can be tantamount to a right to delivery up of it and look virtually indistinguishable from absolute ownership. Any lawyers tasked with documenting rights and obligations in respect of a work whose ownership is split will need to advise carefully on the practical implications of this and draft accordingly.

Interviewed by Helen Redding.

Phil Smith is a partner in the dispute resolution and insolvency teams at Pitmans LLP. He specialises in commercial litigation, bringing and defending a wide range contractual and tortious claims on behalf of businesses, individuals and insolvency practitioners. He has particular expertise in technology disputes, property litigation, costs and contentious insolvency matters.