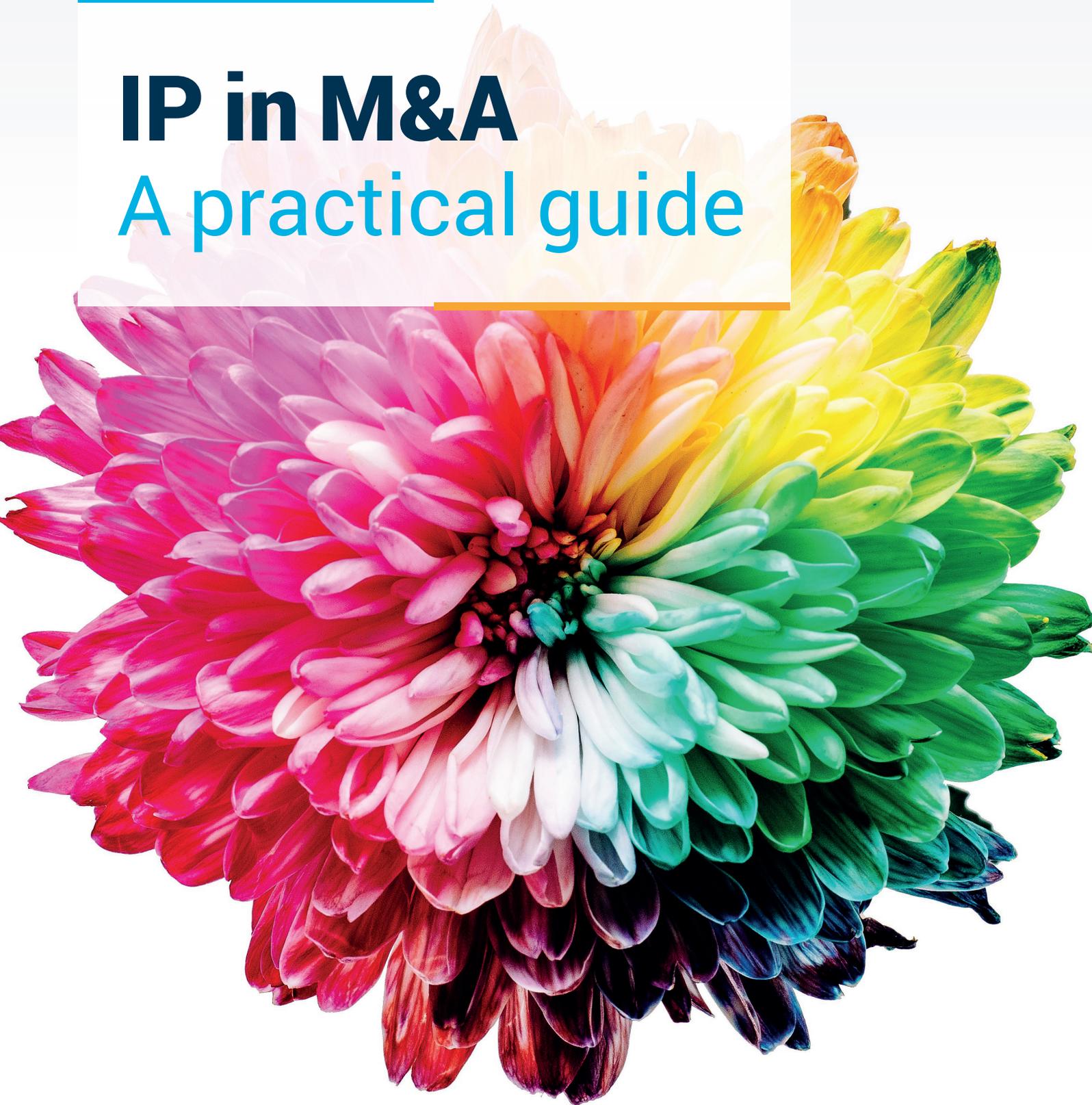


IP in M&A

A practical guide





About Novagraaf

For more than 130 years, Novagraaf has been helping iconic brands and innovative organisations around the world drive competitive advantage. One of Europe's leading IP consulting groups, Novagraaf specialises in the protection and global management of IP rights, including trademarks, patents, designs, domain names and copyright. Headquartered in the Netherlands, Novagraaf has 18 offices worldwide and a powerful network of more than 330 specialists. Part of the Questel group, Novagraaf is unique in our ability to provide tailored legal expertise, efficiency-gaining administrative services and proactive commercial insights across the full life cycle of clients' IP rights.

Find out more at www.novagraaf.com

Time to get it right: How to prepare and manage IP rights for mergers and acquisitions

A well-maintained IP portfolio and, just as importantly, a well-maintained record of the IP portfolio can add significant value to a company, during merger and acquisition (M&A) activity, as well as making it an attractive proposition. From a buyer's perspective, it can make the transition from buyer to owner a smoother ride.

Whether directly or indirectly, consciously or unconsciously, IP will play a major role in any merger or acquisition. A company's brand value or its product or innovation portfolio are key value differentiators, providing plenty of strategic reasons for M&A-related activity. In order to maintain that value, however, companies need to be sure that their IP records are accurate and up to date.

Where to start – due diligence checks

In an ideal world, the IP portfolio will have been diligently maintained and recorded, and the target company's IP audited and cleansed in preparation for the M&A activity. However, such due diligence does not always take place, whether due to time constraints or the nature of the acquisition.

For that reason, when a merger or acquisition is being considered, there should be an audit of the portfolio at an early stage to see if the records have been properly maintained and the chain of title is up to date. This also serves to verify that the buyer is getting what they think they are buying, and gives them the opportunity to ask the seller to make the appropriate updates to the portfolio as a condition of the transaction.

If for reasons of confidentiality or speed it is not possible to conduct the IP audit prior to completion, it should be done at the earliest opportunity. Not all IP is a registered right and so an assessment of all company documents will generally be needed to locate other rights, such as copyright or confidential information, licences or distribution rights.

Having reviewed the records and cross-referenced them with other data resources, an analysis of the scope of protection should be undertaken against the new owner's or merged company's business plan. That will enable the new owner to identify key rights and those that are not required. Even in well-maintained portfolios, there are gaps in protection, usually with good reason. These need to be identified and the possibility of obtaining protection reassessed. We will deal with all these important steps in this white paper.

After completion – update the ownership

Transfer of all IP assets to the seller needs to be dealt with equally promptly. When IP changes hands, records need to be updated at the relevant registries if the rights are to be properly maintained and enforced. Much like having your car insurance registered to the wrong address, buyers may find that they're not fully protected when they need their rights the most.

Once the portfolio has been evaluated and required rights identified, consideration needs to be given to updating the ownership of registered rights and transferring any rights based on agreements to the new owner. It is important to do this in good time, especially if the company ceases to exist after the transaction and it is no longer possible for the relevant documents to be signed.

Updating IP ownership is not always a simple procedure. Each jurisdiction has its own quirks, requirements and fees, whether in terms of the documents that need to be supplied or the time frames in which companies need to act. Translation requirements may also need to be considered.

Organising the process

In order to build an IP recordal management programme to update the records, companies need to first understand and identify the complexity, the risks and the requisite levels of expertise needed to manage the work successfully. This is likely to vary depending on:

- the number of countries across a portfolio;
- the number of changes of ownership that need to be updated;
- the presence of multiple owners within a given portfolio;
- any uncertainty about the current status of official ownership records;
- the need to update the chain of title before recordals can be made; and
- the number of foreign agents in the same country that are engaged in (and therefore need to be managed through) the process.

The most cost-effective and efficient approach to title updates is to do all of it in one hit. However, depending on the jurisdictions and rights in question, it is possible to phase the process of updating records post-M&A. As a general rule, companies should seek to ensure that their records have been verified and updated by the date by which the next renewal is due.

For trademarks where renewals are generally payable every 10 years, this can give rights holders a good window in which to plan their activity. They can decide to update their core rights promptly or prioritise those registered in key jurisdictions, but then to wait for the next renewal deadlines for lesser rights. They can then decide whether they even wish to maintain a right and, if so, update it at that time. For patent rights, time constraints are generally more pressing given that most renewals are payable annually. It's also important not to overlook updates to design rights and any other registered, non-registered or recorded forms of IP, e.g. domain names, copyright assignments etc.

Always keep in mind that if you do not record the changes straightaway, obtaining signatures from the seller will become more difficult as time passes. If the seller is liquidated or dissolved, it can become impossible.

One way to avoid this is to ask the seller to sign the documents on or as soon as possible after completion; although note that, in some countries, the documents become void or invalid with time. It is worth noting that until the ownership is updated, it is not possible to enforce rights in most countries or situations. Buyers may also be unable to claim damages for any acts committed before the ownership change has been recorded on the relevant register.

Finally, companies are advised to look into time schedules in advance of formulating their updating strategy. Some jurisdictions have a six-to-eight month timeframe in which records need to be updated and companies that do not adhere to this will need to pay a local fine. Here, quick and easy access to the named signatory will also be crucial.

When a plan comes together...

It saves time and money over the longer term if a strategy is in place to manage all of this in advance of an acquisition or merger. IP lawyers and trademark attorneys are not always included in discussions from the word go. However, the earlier they are included and can be involved in the planning, risk assessment and risk mitigation, the better the results will be.

Putting in place an executable plan which actively addresses the IP issues around the newly created business will make the whole process more straightforward. Similar considerations to those set out above are also likely to arise in relation to copyright, designs, domain names and patented products, ingredients, methods or components. The compelling commercial benefit of a transaction may override these IP-specific obstacles, but it is helpful to have some forward thinking about potential solutions and agreements to execute them post-completion.

If you have any questions or would like any specific advice on the topics covered in this white paper, please speak to your Novagraaf attorney or contact us at customerservice@novagraaf.com.

IP in M&A: 5 steps to manage the recordal process

Planning is crucial to the safe transfer of an IP portfolio following M&A, no matter the timescales involved. Minimise the impact on your business and resources with these five steps for recording change of ownership.

As with the transfer of ownership of real property, there is a significant difference between agreeing to transfer IP rights and the completion of the formalities required for the actual change of ownership. The latter requires compliance with formal procedures across multiple jurisdictions and often with multiple authorities – a complicated and time-consuming task. The recommended process set out below will help to smooth that process and minimise the stress for in-house teams.

STEP 1: Schedule the transfer

The purchasing company should receive a schedule of registered IP rights and pending applications. It is vital that this includes information relating to upcoming deadlines, e.g. renewals, oppositions etc. The selling company should notify its own IP team plus all external agents and advisers that responsibility from a certain date passes to the purchaser, and the purchaser's agents and advisers. There needs to be proper communication to all relevant parties to ensure that this change of responsibility is understood and actioned.

STEP 2: Verify the data before you import it

The purchasing company and its agents/representatives should take steps to verify that the information with which they have been provided is correct and reflects the present state of the official record in every jurisdiction. This should be done by evaluating the IP assets in question, e.g. by:

- identifying the countries where they are registered;
- assessing the chain of title and identifying any integrity issues; and
- selecting foreign agents in each country to carry out the updates on their behalf.

In order to adhere to the strict formalities that exist in many jurisdictions, it's important that IP transactions, such as transfers of ownership or changes against the official record, must not only be notified to the appropriate patent and trademark offices in a timely manner, but also managed and stored appropriately within the organisation itself.

To build an IP recordal management programme to deliver this, companies need to first understand and identify the complexity, the dangers and the requisite levels of expertise needed to manage the work successfully. This will likely vary depending on:

- the number of countries across a portfolio;
- the number of changes of ownership that need to be updated;
- the presence of multiple owners within a given portfolio;
- any uncertainty about the current status of official ownership records;
- the need to update the chain of title before recordals can be made; and
- the number of foreign agents in the same country that are engaged in (and therefore need to be managed through) the process.

STEP 3: Confirm the formalities

Take local advice in each and every jurisdiction where rights are to be transferred. Requirements vary from country to country, and local practice and rules can be rather fluid. Likewise, requirements within a single jurisdiction can be different for different types of IP; don't assume that a single document will suffice for all IP rights.

Depending on where the rights are held, buyers may find that they need to:

- Simply notify the registry by letter or email that the IP rights owner's address has changed;
- Provide evidence (e.g. the master deed or a contract signed by both parties) to substantiate a change in address or owner. There may be good reasons why the business sale agreement cannot be disclosed and so the buyer may need to obtain agreement from the seller to sign confirmatory assignment documents in those countries; or
- Supply additional authentication; for example, a notary seal and legalisation from the local consulate.

Bear in mind that documents will often require the signature of both the old and new owners. Logistically, it is simpler to have a complete set of documents signed in one session for each party. The documents typically required are:

- Confirmatory assignment
- Certificate of incorporation
- Power of attorney

As mentioned earlier, notarial certifications and legalisation stamps will also need to be obtained and applied in many jurisdictions. Supporting material may also need to be supplied, e.g. evidentiary documentation and power of attorney documents. Arrange for these documents to be signed in the presence of a notary and factor in time for the additional preparation depending on the laws of each country involved. Those that require legalisation should be sent promptly to the relevant authorities (embassies and consulates).

STEP 4: Keep track of progress – especially if personnel or suppliers change

The completed forms will normally accompany an application form and fee by which the application to record the change of ownership is formally recorded. This will mostly be carried out by local agents/representatives acting under the authority of a power of attorney. Agents should be instructed on which forms to prioritise, and time factored in to chase them for timely responses and to update internal responses upon receipt.

The speed with which the local authorities process applications to record changes vary enormously from a few days to, in the most extreme cases, several years. The purchasing company's IP team needs to keep track of this, and to maintain internal records to reflect the status and up-to-date details.

STEP 5: Double-check confirmations

Confirmation of the recordal of the change of ownership will come from the authorities in each jurisdiction by way of certificate or some other formal communication. Make sure you receive all confirmations of the updates by monitoring the files. Updated recordals should be registered as receipts, and you'll need to check and address errors and omissions with agents as they arrive. You also need to factor in the time needed to manage foreign agent invoices, the updating of internal records and the budgeting and costs for staff time, among other things.

Don't underestimate the task

The work involved in post-transaction recordal of changes of ownership of IP rights requires a blend of skill and knowledge. It demands considerable expertise in international IP administration; access to, or knowledge of, the current international rules and documentary requirements for filing ownership changes; and the resources to manage competing deadlines and multiple lines of communication. Crucially, it also requires access to a network of knowledgeable local representatives in all jurisdictions where IP rights are held.

For these reasons, it is sound practice to employ the services of an expert team that can safely and cost-effectively manage such a project through to completion. If you choose to utilise internal resources, consider their qualifications and existing workloads; if you choose to recruit outside support, try to balance experience, expertise and cost. Although the process is complicated, it is easy to manage if the correct support is in place.

Novagraaf routinely manages IP recordal work on behalf of our clients. Please contact us at customerservice@novagraaf.com if you need advice.

Overcoming common pitfalls in IP portfolio transfers

The quality of IP record management will tend to be brought to the fore during the transfer of a portfolio. Here are some potential issues to look out for and common problems that need to be solved during portfolio take-overs.

As we previously covered, the extent to which companies are diligent in the maintenance of IP and IP records can vary considerably. If rights are not kept up-to-date, they will be at risk in terms of validity and/or enforcement. Here are some tips to avoid common pitfalls.

Test the water

Is the schedule of rights listed on the final transfer agreement reflected by the records held by the relevant patent and trademark offices? Are the records held in the correct entity name? Look out for even minor discrepancies, e.g. between plc/ltd status. Errors here create delay, or worse, may invalidate the registered rights.

Brief your agent network

As a next step, an agent in every country should be contacted – the company acquiring the portfolio should use its own agents (rather than the agents of record) – to check what the relevant IP office requires or would accept in order to update the records to the new owners.

Using your own agents ensures that there is no conflict of interest. It's often essential to use local agents as they have knowledge of local law and rules, and can speak the local language. These rules may also require a representative to be a local resident and/or registered locally.

Schedule the work

The larger the IP portfolio being transferred, the longer and more expensive the process of recording the change of ownership will be, and the more likelihood of errors. As we covered earlier, best practice is to always record changes to title as soon as possible after completion of the transaction, as delay in recordal can have an adverse effect on validity and enforceability of rights in some jurisdictions and in some circumstances.

However, pressures on budget and resources necessitates some businesses to delay recordal until there is a compelling

need. The theory here is that it will spread the overall cost and administration of recordal over potentially several years. In reality, of course, the total cost of the exercise will usually end up being significantly higher than a single mass recordal project.

Sometimes, recordal projects are also delayed by indecision as to the best way to manage the IP rights moving forward. For example, a newly merged business may find it is appropriate to centralise IP ownership. Deciding this in advance of the IP recordal process will obviously help to avoid unnecessary costs and risks (eg, due to refusals or duplicate records).

Manage the paperwork

The IP recordal process requires two signatories (the selling and buying companies), and the representatives must both be available and empowered to fulfil the requirements. Do the representatives have the right to sign on behalf of their company? What happens if they leave after the sale?

It is often helpful to have the parties sign a general power/authorisation empowering an attorney to complete all documents needed to confirm and record the assignment. This means that documentary requirements that arise after completion of a sale/transfer may be met without the need to track down authorised signatories from either party.

Erroneous record of title may jeopardise the validity of IP. In this regard, it's important to note too that, in most jurisdictions, documents filed in support of an application to change ownership have not been thoroughly examined. In some cases, there is no examination at all. This means that the first and only time that the supporting documents will be scrutinised is during a legal challenge. A primary argument by a third-party may be that the trademark registration is not, in fact, owned by the claimant. If the ownership documents are faulty, it will come out just when the new owner needs it least. For that reason, it's important to ensure that every step of the process in every jurisdiction is taken correctly (if in doubt, involve a specialist).

For patents, it may be the inventor as well as the owner who needs to complete the documents. Inventors who are not or no longer employed by the owner may be difficult to find, particularly post-completion. This is another reason why identification of issues as early as possible in the transaction is important to facilitate the smooth running of post-completion steps.

Keep on top of deadlines

Deadlines are usually critical in the prosecution and maintenance of IP rights, particularly in relation to patents, which require payment of annual or regular maintenance fees. If not met, the rights can be damaged or lost. As responsibility changes from one owner to the next, and from one representative to another, the risk of error or omission increases markedly.

It is critical, therefore, to ensure an effective transition through good cooperation and communication between the parties involved. It is also important that any foreign representatives are notified promptly. The sharing of a forthcoming list of due dates is extremely helpful.

Get the right support

Novagraaf routinely manages IP recordal work on behalf of our clients. Our experienced teams are practised in the processes required to verify and update records in every key IP jurisdiction, whether for a direct client or as an outsourced assignment from an in-house team. The team can cross check registered rights against a company's records and identify variations, and advise on where to find and evaluate non-registered IP rights and how best to keep a record of them going forward. Once the due diligence process is complete, our back office teams have experience of recording transfers of ownership, the documents required and processes involved, making the experience ultimately less stressful. ■

A checklist of common pitfalls

Outlined below are common portfolio management issues that surface when chain of title and IP recordal work are not properly managed or promptly updated:

- Difficulty tracking and identifying which IP assets have been updated and which have not;
- Erroneous record of title may jeopardise the validity of IP in some jurisdictions;
- Recently filed applications can be held up by IP registered in the old name;
- Original evidentiary documents could be irretrievably lost;
- Prior owners may go out of business, cease to exist, move or change names;
- Prior owners may be unwilling to cooperate after the passage of too much time, especially if personnel have changed since the original transaction;
- Default in applications and registered IP may occur if official documents are delivered to the old owners and answer deadlines are missed, potentially causing the rights to be lost;
- Inability to file suit against infringers if the IP is in the wrong name;
- Inability to get a temporary restraining order in infringement matters;
- For trademarks, third parties may be more likely to adopt conflicting marks if they think the owner is defunct; and
- May make divestiture of assets more difficult or may get lower offer if ownership appears split or the chain of title is not up to date.

This is not an exhaustive list, but it gives some idea of the risks that can occur if the IP recordal process is not given prompt attention or resourced appropriately. The transfer of IP ownership due on the acquisition of a brand or business is inevitably a time-consuming and costly exercise, and it's important to be aware of the potential risks and pitfalls of a failure to record changes in a timely manner.

Get in touch

To find out more about Novagraaf's services, or if you have any further questions on how to manage IP as part of an M&A transaction, please contact our experts by emailing customerservice@novagraaf.com.