

## Intellectual Property Rights in M&A Transactions in Poland

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Intellectual property rights can sometimes be underestimated or even overlooked in a due diligence process preceding a corporate transaction. This occurs because intellectual property is not a physical asset. Its very existence and scope, and thus its value heavily depends on contractual rights and other legal issues. Yet, intellectual property may be the most valuable asset of the company and the acquirer should attach utmost attention to their proper investigation and evaluation. This article discusses vital issues in corporate transactions through the lens of an IPR lawyer and provides a practical checklist of what needs to be done and cared for.

In today's world, intellectual property might be the most valuable asset transferred during a company merger or acquisition. A notable reminder of a poorly conducted IPR due diligence delivers the 1998 Rolls-Royce trademark debacle by Volkswagen, where VW purchased the Rolls-Royce manufacturing business *without* the famous trademarks. This resulted in the curious situation that VW could manufacture the distinctive vehicles but they could not sell them under the Rolls-Royce brand (Volkswagen acquired the Rolls-Royce business for approximately US\$790 million (the tangible asset value was US\$250 million) only to find out that it did not acquire the right to the Rolls Royce trademark). This highlights how crucial it is – in fact not only for the buyer but also for the seller – to properly evaluate these intangible assets. The thoughtful buyer would then be expected to analyse whether the benefits and risks of the transaction will fit into its strategy: From its point of view, disclosures in the intellectual property due diligence process might provide an argument to renegotiate the price or other key terms of a transaction, for example if it finds out that the target company is only operating under licence and does not own the title (copyrights). The seller on the other hand might realise that it needs to keep whatever legal right to continue using a particular trademark to do business and should not transfer all intellectual property assets to the buyer, unless a back-licence or similar arrangement is made.

In order to identify the existence, ownership and control of intellectual property assets, their economic and strategic value and the potential infringement of IPR by others, the buyer should conduct a complex due diligence process of intellectual property of the target. That involves interviewing people with relevant knowledge, reviewing documents, in particular licence and sublicense contracts, obtaining information from various databases and checking title records for the property at the relevant intellectual property offices with assistance from legal counsel.

Naturally, each transaction is somewhat different. Hence key areas of inquiry have to be based on strategic business objectives of the deal and specifically tailored to the type and size of the business. It is also important to



examine which stage of evolution the business is experiencing. The following checklist covers the basic steps that ought to be considered in the due diligence.

The first step is to understand the company's basic products and services. It also means understanding the company's competitive stance in the business context, both financial and economic, and from the intellectual property perspective. This step should be followed by an exact determination of what intellectual property assets the target company owns and whether it is possible for the company to market its products or services without infringing the rights of others.

A foreign lawyer or international investor will discover that the process of IPR due diligence associated with an M&A transaction targeting a Poland-based company resembles all the patterns such a lawyer or investor might well be familiar with. The presence of multinational law firms and the participation of foreign investors contributed to the proliferation of international know-how and the promotion of generally accepted standards, which for a long time have been commonplace in Poland.

So, the following check-list will come at a little surprise for an experienced IPR / M&A lawyer:

*Patents:*

- Obtain a complete list of the company's patents and patent applications, both utility and design. Patents observe national boundaries so the list should involve a determination of whether they are domestic or foreign. One should also specify the place of registration in order to identify if patent protection is available in the countries where products are sold.
- Identify the ownership of the patents and patent applications, including the title chain of each of them.
- Check any current or threatened litigation against the company and assess whether such litigation may impact on the business.
- Identify patents that have expired and are not longer enforceable.
- Confirm the payment of maintenance fees for all patent applications and issued patents.
- Check if the company uses a patent which belongs to another subject. State the basis for the company's right to use that patent.
- Investigate if the company uses any inventions which are not secured by a patent protection.

Value of a patent is determined by the scope of protection defined in patent claims. During the exchange-of-ownership the acquirer must also bear in mind limitations resulting from the antitrust and competition laws. Consecution of the transaction might be a creation of a bundle of patent rights which could erect a substantial barrier to market entry for other competitors. This might subsequently infringe Art. 82 of the EC Treaty as well as art. 9 of the Polish Act on the Protection of Competition and Consumers of 2007.

*Trademarks:*

- Determine the trademark usage and review all products, marketing, promotional materials of the target company. Review both the geographic area of use and the date of first use of each such mark in the relevant regions.
- Obtain copies of all trademark registrations and registration applications used or for use in connection with the company. Verify whether the trade mark was registered in the UE (Community Trade Mark).
- Check if a right of protection for the trademark was granted.



- Review all licence agreements and merchandising agreements, regardless of the seller being the licensee or licensor.
- Confirm the ownership and a clear title to company trademarks from the inventor, the author or any other parties involved in the creation of a trademark; or the previous owner. It is important because the trademark may be a joint work where each co-author owns an undivided part of the property.
- Check if the company uses any trademarks registered to the benefit of third parties.
- State a basis for the company's right to use the aforementioned trademark.

*Domain:*

- Obtain a list of domains registered to the benefit of the company.
- Review and estimate the prospect of solving any potential domain name disputes.
- Check if the company uses any domains which are registered to the benefit of third parties. State a basis for the company's right to use the abovementioned domains.

*Copyrights:*

- Identify all copyrighted works relating to the company.
- Review all licences, regardless of whether the seller was the licensee or licensor, related to any copyrightable works used by seller.

In the intellectual property due diligence, it is also recommended to provide documentation regarding trade secrets, know-how, confidential information and seller's agreement with employees and independent contractors.

By its own nature there is no perfect checklist that can be relied upon without consideration of the company's business goals and how those goals refer to the transaction at hand.

When estimating the economic value of intellectual property rights, it is recommended to consider a type of IPR, including limitations extending to area (geography) and expiration (time). Potential contractual restrictions and effective enforcement of those rights are major factors in the evaluation of a transaction. Estimating the value also includes a careful assessment of the competitors' patents, trademarks and copyrights. Approximate calculation of the strategic value of IP is more difficult and will be undertaken by decision makers and depends on the long term goals of the acquirer.

In the context of M&A transactions it is hardly ever enough to repeatedly emphasise that the brand power stored in the minds of consumers might be worth much more than physical assets. This is true not only for the FMCG, but for luxury products, as the aforementioned Rolls-Royce case demonstrates. For other reasons, IPR are equally crucial with respect to target companies that heavily rely of knowledge and technology. Professional IPR due diligence is worth its price.

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