



# Brand focussed M&As

TRADEMARK AND INTELLECTUAL PROPERTY ISSUES

**The importance of brands**  
**The strengths and weaknesses**  
**Documenting the deal**

Few instructions are as challenging for the trademark lawyer as large-scale brand focussed merger & acquisition (M&A) deals. Invariably these deals are multinational and time-critical. The range of intellectual property issues does not stop at identifying what the IP is and who will own it. In many cases, IP needs to be split between retained and disposed of businesses, subject to transitional arrangements, dealt with in a way that protects the brand value and reputation, optimises the tax outcome and steers a path between competition law concerns and commercial objectives. Asking the right questions at the outset saves time and can help make sure that the transaction proceeds smoothly.

In today's corporate world, the advantage of monopoly trademark rights cannot be underestimated. When businesses engage in brand intensive M&A transactions, therefore, branding and the associated IP rights are often central to the deal and companies are willing to spend substantial time and effort to ensure that they obtain or retain the rights they need.

This article discusses the trademark and branding aspects of M&A transactions from the perspective of the buyer, particularly in relation to:

- a) understanding the importance of brands to the deal;
- b) identifying the strengths and weaknesses of the brands; and
- c) documenting the deal.

This article describes broadly the Anglo-American approach to brand-intensive international M&A deals. However, increasingly this is the approach being followed in Asia and continental Europe.

## The importance of brands

When engaging in any M&A transaction, the parties should make an early assessment of the strategic importance of branding to the deal. In many transactions, this is obvious: the brands are at the heart of the business, and the value of the business is directly linked to them. However, there may be additional peripheral branding issues, which can have a serious impact on value.

Where the target's activity is the entire business of the seller or is very distinct from the remaining parts of the seller's business, all trademark rights used by the target will be transferred to the buyer. However, it is not unusual for the seller to retain certain rights in relation to the brands that are the subject of the deal, because, for example, the seller plans to continue to conduct business under the brands either in countries or in relation to products or services which fall outside the deal. In such circumstances, it is essential to structure the deal so as to minimise the risk that ongoing use of the brands by the seller will damage the value of the trademark rights acquired by the buyer, or the buyer's ability to develop the business acquired using the brands.

Increasingly trademark rights are key to the tax structuring of a deal. In such circumstances it is essential that the tax advisers and the trademark advisers discuss the issues at the outset to ensure that, on the one hand, the proposed tax structure does not jeopardise the validity or enforceability of the trademarks being acquired, and, on the other, that the acquisition of the

trademarks is structured in as tax-efficient a manner as possible (taking into account the recordal costs of any associated assignments and licences at local registries), in particular with regard to the taxation of revenue streams generated under the acquired trademarks.

Trademarks can be crucial to the buyer's ability to secure finance for the transaction. Banks are becoming increasingly sophisticated in the security rights they seek in return for funding. The structuring of security arrangements in relation to trademark rights in a manner which sufficiently protects the validity and enforceability of the trademark rights can be challenging in many jurisdictions.

Considering issues such as these before embarking on the due diligence and documentation phases of the deal described below is essential.

## The strengths and weaknesses

For a buyer, identifying the trademark rights needed (and any limitations or risks to which they may be subject) is obviously crucial. There are various ways in which this can be done. Frequently, the seller will provide general information about the brands in an information memorandum or similar document. However, the usual way to obtain the information is to ask, by giving the seller a detailed list of questions about trademarks owned and used by the target. These questions should cover, for example:

- a) what registered and material unregistered trademarks are owned by the business;
- b) what trademark rights have been licensed in by third parties and what rights have been licensed out to third parties;
- c) whether there have been claims made by third parties that the operations of the business infringe their trademarks, or by the business that third parties infringe its trademarks;
- d) whether there are any registry or administrative proceedings underway in relation to any trademark applications;
- e) whether the seller is aware of any circumstances whereby the business is likely to lose any of its trademarks (eg for non-use); and
- f) whether the marks have been properly monitored and actions have been taken against conflicting applications to avoid dilution of the marks.

Unfortunately, a seller's response is often inaccurate or incomplete. Despite the fact that the buyer will generally obtain warranty protection as regards the accuracy and completeness of the information provided by the seller, it may still be prudent (not least because of the difficulties, such as high financial thresholds, which can be associated with making a claim under the warranties) to undertake independent searches to verify the information that has been provided. Whilst searches can give a high level of comfort, they can be expensive, and, in some jurisdictions, simply take too long given the deal timetable. Moreover, even full searches will not necessarily reveal key issues, such as whether a licence or security has been granted over the rights. However, it is still advisable to conduct spot checks in key territories for the key brands.

The due diligence phase is designed to enable a buyer to assess any limitations associated with the brands. For example:

- a) the trademarks may be licensed to third parties;
- b) there may be co-existence agreements;
- c) the seller may itself be a licensee of the marks under a terminable licence;
- d) key agreements relating to the trademarks may not be transferable to the buyer without third party consent;
- e) the seller may intend to retain some or all of the trademarks; and
- f) the brands may be unregistered or the subject of an application which has encountered challenges.

Where the trademarks are licensed to a third party or subject to a co-existence agreement, the buyer will generally take the marks subject to those agreements. Before closing, the impact such agreements might have on the development of the acquired business should be considered.

Where the target is itself using key trademarks under licence, it is essential to determine whether the licence can be transferred (in the case of an asset sale) or whether any change of control in the licensee will trigger termination rights (in the case of a share sale). The scope of the rights granted under the licence should also be assessed. Is it, for example, exclusive? Can it easily be terminated by the licensor?

In circumstances where the buyer and the seller will both use the same trademarks following the deal (most usually in different countries or in respect of different goods or

services), the arrangements for use need to be structured in a way which satisfies the commercial objectives of the parties whilst protecting the trademarks. This is often achieved through a blend of assignments, licences, and co-existence arrangements.

From a trademark protection perspective, a licensing arrangement will often be preferable, with one party owning the trademarks and licensing them to the other, subject to the usual quality control provisions. However, such provisions and any right to terminate the licence for breach of them are often unacceptable to the buyer. In addition, competition laws can restrict significantly the ability of the parties to create a licensing arrangement which ensures absolute protection for their respective countries, or goods and services, of interest.

Alternatively, the parties may consider assigning the brand rights for some countries, with the seller retaining the rights in other countries, or (in countries where it is possible) for there to be a “partial” assignment of the trademarks, ie, an assignment in respect of some of the goods or services for which the trademarks are registered, but not others. These arrangements are not without risk from a trademark law perspective:

- a) In most countries, a trademark registration may be revoked if, as a consequence of the use made of it by the trademark owner or with the owner’s consent, it is liable to mislead the public.
- b) From a commercial perspective, any such assignment structure will necessitate a co-existence agreement between the buyer and the seller. The competition authorities will look closely at co existence/ delimitation agreements between owners of identical trademarks in different countries, particularly in different European Union Member States, or in respect of different goods and services. They tend to take the view that such agreements are likely to be anti-competitive, unless they have come about as a result of a “genuine dispute” between the parties and the agreement does not contain restrictions which are designed principally to ensure absolute territorial protection for the respective owners of the marks.
- c) It is not possible to assign a Community trademark in respect of only one country, so this may prevent the parties from splitting the marks geographically.

## Documenting the deal

The main document the parties will negotiate is the Sale and Purchase Agreement (SPA), which contains the warranties and indemnities that the buyer will rely on post-completion. Depending on the choice of law in the SPA and mandatory laws applying in the jurisdictions concerned, adaptations to comply with national laws may be necessary.

In heavily branded businesses, the buyer can usually expect warranties covering the following:

- a) all trademarks owned or used by the target are listed in the disclosure letter and the list is complete and accurate – this covers both registered and unregistered rights;
- b) the seller owns all of the rights and interests, or has validly licensed such rights and interests, in all of the trademarks used in the business;
- c) there are no challenges or oppositions in relation to the registered trademarks and all fees have been paid;
- d) the licences of trademarks both to and from third parties are listed and there have been no breaches likely to result in their termination – where the buyer has not been able to carry out extensive due diligence on the trademarks, this warranty is a useful way of revealing what licensing arrangements exist;
- e) none of the operations of the target infringes the trademark rights of a third party and no third party is infringing the trademarks owned or used by the target; and
- f) the registered trademarks are not subject to any security interest or charge.

Claims under the warranties will be subject to financial caps – an individual claim will often need to exceed a certain amount, or reach an aggregate before it will be met; there may also be limits on how much the buyer can obtain in a single claim or an aggregate cap on claims. These caps may make it difficult for a buyer to rely on the warranties in relation to the many, smaller branding problems which can arise following the sale, a point to be borne in mind by a buyer in negotiating warranty protection.

The warranties will also be subject to certain disclosures made by the seller in a disclosure letter. This will set out specific instances where the seller knows that the warranties are not true. For example, where the SPA

contains a warranty that the target is not infringing any third party trademarks, the disclosure letter may contain details of a trademark infringement case which the target is defending. Where these disclosures are made, the buyer cannot claim under the warranties for losses relating to them.

If disclosures are made, and the buyer does not want to accept liability for resultant losses, the buyer will ask for indemnities to be included in the SPA, under which the seller indemnifies the buyer for losses relating to the disclosure. For instance, where the buyer is aware that infringement proceedings are taking place, the buyer may ask the seller to indemnify it against all losses it will incur as a result of the claim, up to an agreed amount, or, rarely, without limit.

It is also possible that the SPA will contain transitional arrangements allowing the buyer to use a retained house brand belonging to the seller for a limited period. This transitional use of the brand will normally be restricted to use on existing stock, packaging, and other materials to give the buyer a chance to migrate to its acquired sub-brand.

Aside from the SPA, there may be other ancillary documents, such as trademark licences, assignments or co-existence agreements to execute. Precisely which documents are required will depend on the structure of the deal and how the trademarks are being dealt with within that structure. For example, where the seller is retaining certain shared brands and licensing the buyer to use them, an appropriate trademark licence will be required.

Trademark assignments are particularly important where the buyer is acquiring assets rather than the shares of the company which is the registered owner of the trademarks.

Sometimes a single global assignment is used, which lists all of the trademarks to be transferred. In many jurisdictions this document will be ineffective to assign the trademarks to the buyer. Such assignments should ideally be restricted to trademarks to which the buyer attributes least value. A “further assurances” clause, under which the seller undertakes to take whatever further steps may reasonably be required in order to vest the trademarks in the buyer, is particularly important in such

assignments. Where individual assignments are executed, care should be taken in relation to the inclusion of any consideration in the assignment, which should not be done without consultation with the tax advisers on the deal. Even if individual assignments are used, there should be a “further assurances” clause in the SPA in which the buyer can rely in order to ensure that the trademarks are properly transferred to it.

In asset sales, the seller is often liquidated as soon as its assets have been sold. All trademark assignments should be completed before liquidation of the seller – it can be difficult to retrieve registered trademarks when the registered proprietor no longer exists.

Trademark, tax and competition law issues are at the forefront of any large brand-intensive M&A deal today. Addressing these issues at as early a stage as possible in the transaction will result in the deal being done in a more efficient and effective manner.

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