

Effective M&A planning

During most M&A transaction, IP is not usually a primary consideration. But, writes Asa Le Fustec, it should be

When it comes to mergers and acquisitions (M&A), not all corporate assets are considered equal. Unless a key driver for the purchase, IP assets, in particular, are rarely given the due diligence they deserve. However, as IP departments are well aware, this can often prove a costly and troublesome oversight. A well-negotiated deal may seem attractive at boardroom level, but if the IP hasn't been considered, the buyer may be setting himself up for some major inconveniences once the deal is finalised.

Are you sure you own the IP?

Before closing any M&A deal, companies would be wise to utilise their IP department to evaluate the patents, designs, trademarks, copyrights and trade secrets being acquired. At the very least, they should confirm that the seller owns all of the necessary rights to their IP, that, where applicable, maintenance fees have been paid, and that the chain of ownership has been kept up to date. If these records are flawed, then a company may find that its own endeavours to record itself as the new owner prove fruitless, leaving it with no option but to file new applications – risking not only considerable expense, but also the validity of the rights.

Recording changes to ownership is a hugely administrative process and has immediate implications for in-house staff, yet this activity is rarely considered at boardroom level. Given the complexities involved in M&A activity, it's no wonder that few CEOs factor in the time and cost of recording title changes when they strike a deal – and why should they? The formality costs are often minuscule in comparison to the money changing hands for the company as a whole. However, it's not simply the administration cost that should be considered.

According to research undertaken by PricewaterhouseCoopers, intangible assets and goodwill accounted for up to 74% of the average purchase price of companies in 2003 ("Valuing IP and determining the cost capital", John Rugman and Tony Hadjiloucas in Building and Enforcing Property Value,

PricewaterhouseCoopers, 2005). With such a large proportion of the overall cost of an acquisition tied up in such assets, can any CEO afford not to consider the IP from the outset? Failure to undertake adequate IP due diligence may effectively diminish the value of the IP or, even worse, render the rights useless.

Do the formalities really matter?

Large companies with a strong global brand protection strategy and an in-house IP legal department should know to verify any IP acquired through M&A activity during the due diligence process. However, this is seldom the case.

Consider the case of a large US-based confectionary company which brokered a particularly large acquisition without attention to the IP it was purchasing. When the new portfolio of rights was handed to the IP department to record the title updates, it discovered that the rights to the brands the company had acquired were unenforceable. Many of the brands were still registered with the details of previous owners, which through previous M&A activity had changed hands several times, and much of the portfolio was also registered in the name of companies that were no longer in operation. Without the ability to obtain signatories and documentation to support all the changes in ownership, the company were forced to file new applications. Of course, this is labour intensive, costly and doesn't guarantee success.

Courting risk

Even where you are able to obtain the necessary documents and signatories to prove your ownership, poorly maintained IP portfolios come with an additional premium. Apart from stretching internal resources, the administrative cost of the work can soon become a larger burden than originally envisioned. Trademark law in countries such as the UK also sets a timeframe for the changes in ownership details to be recorded. If the new owner is not recorded at the UKPTO within six months from the date of transfer, companies will lose some protection against infringement. You can still stop others from violating your rights; but you will not receive third-party damages for those infringements.

What is the solution?

Ask any IP department for its ideal solution and the answer is likely to be: involvement. Rather than being left to pick up the pieces post-M&A, most IP counsel would much prefer to be involved in the deal in the first place, so that they can conduct due diligence that supports the M&A process. By providing useful information concerning the status of the IP assets being acquired, IP professionals can help their department and their company, not only to check what they are buying, but also to prepare how they handle the title updates post acquisition.

Updating records is incredibly admin-heavy and can take years to complete. When faced with updating ownership details, most companies have little choice but to focus on one asset at a time, changing ownership on an ad hoc basis, generally as the renewal dates arise. Such an approach risks the validity of their IP rights, as the longer a company leaves it to update ownership records, the more difficult it can be to prove ownership. This strategy is usually more expensive as well. The UKPTO, for example, charges a flat rate to record an assignment, regardless of the number of registrations the changes are being recorded against. The same is true in many other jurisdictions. Professional fees charged by foreign counsel also tend to reduce with volume.

Involving the IP department in advance of M&A deals will enable it to plan more effectively. Many IP departments actively employ the services of an experienced specialist provider rather than managing the work in-house. This approach provides significant advantages; for example, full costs can be provided for the entire update project, enabling accurate budgeting. Providers operate on fixed timeframes ensuring that there is no loss to any rights, which then leaves the IP department free to focus on the more value adding aspects of its role – namely the enforcement and protection of existing IP rights and involvement in future M&A deals.

Asa Le Fustec

Trademark operations manager, CPA
alefustec@cpaglobal.com