

Kluwer Trademark Blog

Trademarks in Transactions – Part I: Due Diligence

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Trademark questions pop up in practically every M&A transaction. Many of these questions are straightforward, some require specialist knowledge. Specialists like to demonstrate as much of their knowledge as possible, and even IP lawyers are not always immune to this. But M&A transactions are not the place for such demonstrations. Disproportionate attention to negligible detail, as interesting as that detail may be, hasn't made any IP lawyer popular yet. The specialist serves the transaction's success best by helping to spot the significant questions and to solve them pragmatically. This two-part blog contribution deals with some trademark and general IP questions that typically occur in M&A transactions. This first part is about the buyer's due diligence review, the second part is about issues coming up in the phase of negotiating and drafting the purchase contract.

Identifying the Relevant IP Subject Matter

It is important to consider the buyer's commercial motive and, in the light of that motive, identify the IP subject matter relevant to the transaction. The brands of a target company may be a part of what the buyer is interested in. In this case the target's portfolio of registered trademarks would deserve great attention and any gaps could be a deal breaker or at least a good reason to push the price. If the buyer intends to integrate the target company or its assets under the buyer's name and trademarks, the target's trademarks are of little concern to the buyer. Typically, the buyer would need to use them during a brief transitional period after the acquisition only. Any gaps in the trademark portfolio then would be, in principle, less cause for alarm.

Trademark Portfolio and Desired Use

From the buyer's perspective, the key question of a trademark due diligence review is whether the target company's assets include registered trademarks that cover the desired brands and the goods or services the buyer wants to use these brands for in the respective territory. The comparison between desired use and the trademark register is rather straightforward, but some knowledge about how class headings and descriptions of goods and services are construed (see [ECJ IP Translator](#)) certainly helps.

Ownership

What complicates that comparison is the fact that registration as the owner does not necessarily mean that the registered owner actually holds title to the trademark registration. So, just like a

machine standing in the target's production hall may belong to someone else, somebody else may own a registration that is registered in the target's name. The target company may, for example, have agreed to a retention of title in a trademark purchase contract or the target company may have transferred trademarks by way of security. Any hints at such irregularities require a closer look at the chain of title.

Scattered Registrations

Sometimes, the portfolio management of a group of companies is a mess. Trademarks are often registered in the names of current or – worse – former principals of the target. Self-respecting managing directors of subsidiaries sometimes decide to register a trademark in the name of their entity instead of, or in addition to, registering it in the name of the parent or the IP holding of the group. The day-to-day business has often left little room for consolidating such scattered registrations. In the due diligence review, the buyer must ensure that the targeted entity is the owner, and the only owner, of registrations for the desired brands.

This is not only an issue for the buyer: The seller must check whether, by giving away the shares of the target, registrations for brands are lost that, commercially, are not part of the deal. Such checks (which may take the form of an outright vendor's due diligence review) may require trademarks and other IP rights to be transferred into or out of the target companies. Tax lawyers need to be involved to avoid adverse tax consequences arising from such transfers (constructive dividends, hidden contribution in kind).

Licenses

Trademark licenses granted by the current owner or any predecessors are valid without a registration in most jurisdictions. In some jurisdictions, including Germany, the acquirer of a trademark remains bound by trademark licenses granted by previous owners. If these licenses are commercially unattractive to the buyer, they constitute an encumbrance of the trademark registrations and lessen the value the registrations have for the buyer. Therefore, examining license agreements is an essential part of any trademark due diligence review.

Disputes

Presumably most red flags during the due diligence are caused by threatening or pending IP disputes. If the target is alleged of having infringed a third party trademark, or – even worse – if the target has already been sued by such third party, a potential buyer needs to get a clear picture about the dispute and potential worst-case scenarios. What are the costs of a rebranding? How much damages are due if the target loses the litigation? What are the litigation costs? How likely is it that the target indeed infringes the third party rights? These and other questions need to be reviewed and assessed before completing the due diligence review.

When the due diligence is done, the negotiation and drafting of contracts begins.

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