Technology M&A 2022

Contributing editors
Arlene Arin Hahn and Neeta Sahadev
White & Case LLP

LEXOLOGY®
Getting The Deal Through

WHITE & CASE

Publisher
Tom Barnes
tom.barnes@lbresearch.com

Subscriptions
Claire Bagnall
claire.bagnall@lbresearch.com

Senior business development manager
Adam Sargent
adam.sargent@gettingthedealthrough.com

Published by
Law Business Research Ltd
Meridian House, 34-35 Farringdon Street
London, EC4A 4HL, UK

First published 2018
Fourth edition
ISBN 978-1-83862-727-0

Printed and distributed by
Encompass Print Solutions
Tel: 0844 2480 112

Technology M&A
2022

Contributing editors
Arlene Arin Hahn and Neeta Sahadev
White & Case LLP

Lexology Getting The Deal Through is delighted to publish the fourth edition of *Technology M&A*, which is available in print and online at www.lexology.com/gtdt.

Lexology Getting The Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique Lexology Getting The Deal Through format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Lexology Getting The Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.lexology.com/gtdt.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Lexology Getting The Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editors, Arlene Arin Hahn and Neeta Sahadev of White & Case LLP, for their continued assistance with this volume.

LEXOLOGY
Getting The Deal Through

London
September 2021

Contents

United Kingdom

Lindsey Canning, Tom Matthews and Philip Trillmich

White & Case LLP

STRUCTURING AND LEGAL CONSIDERATIONS

Key laws and regulations

1 What are the key laws and regulations implicated in technology M&A transactions that may not be relevant to other types of M&A transactions? Are there particular government approvals required, and how are those addressed in the definitive documentation?

There are no particular restrictions or obligations contained in applicable intellectual property and data protection laws specific to technology M&A transactions. However, the central role of intellectual property and personal data in technology M&A transactions often means that issues surrounding the ownership, protection and exploitation of IP rights, or compliance with data protection laws, are brought into sharper relief. Key UK statutes that are, therefore, often implicated are:

- the Trade Marks Act 1994;
- the Patents Act 1977;
- the Copyright, Designs and Patents Act 1988;
- the Data Protection Act 2018 (DPA 18); and
- the Privacy and Electronic Communications (EC Directive) Regulations 2003 (as amended from time to time) (the PECR).

Furthermore, the General Data Protection Regulation (EU) 2016/679 (the GDPR), as incorporated into domestic UK law (under the European Union (Withdrawal) Act 2018, and as amended by the Data Protection, Privacy and Electronic Communications (Amendments etc) (EU Exit) Regulations 2019)), following the UK's departure from the EU (the UK GDPR) is also of significant importance. The UK GDPR is broadly aligned with the GDPR in terms of its substantive requirements. However, provisions concerning supervisory bodies and interactions between EU member states have been amended to reflect the fact that the UK is no longer directly subject to EU law and enforcement regimes. Powers previously held at Union level are now held by the UK's Information Commissioner.

In addition, the Network and Information Systems Regulations 2018 (which implement the EU Network and Information Systems Directive 2016/1148) may be particularly relevant in technology M&A transactions, as they set out specific cybersecurity obligations applicable to digital service providers and providers of services critical to the UK economy.

The National Security and Investment Act 2021 (NSIA) is expected to become effective from 4 January 2022. From its coming into effect, the acquisition of shares or voting rights above certain prescribed thresholds (25, 50, 75 per cent or 'control') in targets operating in seventeen 'sensitive sectors' will require prospective investors to make a mandatory notification to the newly established Investment Screening Unit within the Department of Business Energy and Industrial Strategy (BEIS) before deals can be closed. According to the draft notifiable statutory instrument set to accompany the NSIA, those sensitive sectors are set to include artificial intelligence, computing hardware, cryptographic authentication and data infrastructure. Indeed, the impact of the NSIA is already being felt in the sector as, once operational, the regime contemplates the option for the Secretary of State for Business, Energy and Industrial Strategy being afforded the option to 'call in' transactions completed after 12 November 2019 for retrospective review if those transactions are deemed to pose a potential risk to national security in the UK. Accordingly, investors with technology targets falling within the technology-relevant sensitive sector definition have been engaging with BEIS to gauge whether their deals might be vulnerable to call-in review.

The United Kingdom's export control regime may also be relevant as, under this regime, a licence is required to export certain types of technology or software that have a military use, or which have dual military and civil use and meet certain technical standards. Therefore, depending on the products of the target business, this may be a relevant due diligence item or issue to resolve for an international acquirer.

Government rights

2 Are there government march-in or step-in rights with respect to certain categories of technologies?

The Patents Act 1977 provides under section 55 that any UK government department and any person authorised in writing by a UK government department may, for the services of the Crown, use any patented product or process without the consent of the proprietor.

The UK government has similar rights to make use of any registered design for the services of the Crown without infringing the rights of the owner. There are also specific provisions allowing the Crown to use registered designs during an emergency, such as for the maintenance of supplies and services essential to the life of the community.

The obvious justification for Crown use in each case is national security; however, the Crown's powers have been held to have wider scope than this (eg, allowing importation and use of a patented drug by the National Health Service). In each case, the exercise of this right by the Crown is subject to the payment of compensation, which if not agreed, will be determined by the court.

There are no special rules for Crown use of registered trademarks or copyright.

Legal assets

3 How is legal title to each type of technology and intellectual property asset conveyed in your jurisdiction? What types of formalities are required to effect transfer?

Patents

An assignment of a UK patent will only be effective if it is in writing and signed by or on behalf of the assignor (if the assignment is dated before 1 January 2005, it must also be signed by the assignee). This rule also applies to assignments of UK patent applications and rights in inventions. To effectively assign a European patent application, both assignor and assignee need to execute the assignment.

Prompt registration of an assignment with the UK Intellectual Property Office (UK IPO) is advisable because if a third party benefits from a later assignment without knowledge of a prior unregistered assignment, then that second party will be entitled to ownership of the patent or application in question; if an assignment is not registered within six months of its effective date, the assignee will not be awarded its litigation costs in any patent infringement action involving the patent before the assignment is registered (which may be a substantial amount); and if it is not registered, the assignee will not be able to benefit from all of the rights granted to the owner by statute, including rights to enforce the patent.

UK-registered trademarks

An assignment of a UK-registered trademark must be in writing, signed by or on behalf of the assignor. Again, prompt registration of the assignment is advisable for the same reasons as for UK patents.

UK-registered designs

An assignment of a UK-registered design must be in writing, signed by or on behalf of the assignor. Once again, the assignment should be registered to ensure that subsequent bona fide acquirers of the registered design who do not have notice of the earlier assignment do not take free of it and that the proprietor can exercise all statutory rights granted to the owner.

Copyrights and UK unregistered designs

An assignment of copyright or of an unregistered design right must be in writing and signed by, or on behalf of, the assignor. These rights are not registrable in the United Kingdom, so it is not possible to register any transfer of ownership in them.

Know-how and confidential information

Know-how and other confidential information are largely protected by the common law of breach of confidence. Accordingly, there is no property right in this information, so it is not capable of assignment per se. However, it is possible for the rights in and to know-how and confidential information to be transferred by way of contract.

Domain names

Although comparable to assignment, voluntary transfer of a domain name is technically a termination of the registrar's existing contract with a domain name holder for the right to use a domain name, and the creation of a new contract with a new holder for the right to use the same domain name. This transfer typically has to be in writing, signed by or on behalf of the assignor and contain billing and administrative contacts and details of the new domain name server.

DUE DILIGENCE

Typical areas

4 What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?

The following intellectual property and technology due diligence is typically carried out in technology M&A transactions with a UK element:

- identifying all registered IP rights and applications for registration that are purportedly owned by the target group, and verifying that a member of the target group is the registered proprietor or applicant in respect thereof, in particular by carrying out customary proprietorship searches;
- confirming in respect of the target group's registered rights portfolio whether there:
  - have been, or are, any oppositions or challenges to the validity or ownership of these IP rights;
  - are security interests or licences registered against these IP rights; or
  - are any defects in their chain of title;
- identifying all other IP assets that are material to the target group's operations and confirming that all rights in them are either owned without encumbrance by, or are the subject of appropriate licences to, a member of the target group;
- reviewing the terms of any licences of intellectual property granted to, or by, members of the target group and assessing:
  - for licences in, the scope of the rights granted and that they are not likely to be lost as a result of the proposed transaction; and
  - for licences out, that they do not unduly restrict or fetter the operations of the target group or grant rights to third parties that could otherwise undermine the value of that intellectual property to the business;
- reviewing the target group's agreements with past or present employees, contractors and consultants to assess whether a member of the target group owns all rights in inventions and other works created by them and has imposed appropriate confidentiality obligations on them;
- assessing the target group's use of open-source software and the applicable licence terms, including reviewing source code scans, and analysing whether any such software has been deployed in such a manner as to render the target's codebase liable to be redistributed at no charge or made available on an open source basis or on other disadvantageous terms;
- reviewing and analysing all other IP-related agreements (or IP provisions in agreements), including research and development agreements, strategic alliance agreements, manufacturing, supply and distribution agreements, and settlement agreements;
- determining and analysing the target group's IP protection and enforcement policies and procedures and the measures it takes to protect valuable know-how and confidential information;
- identifying and analysing any IP-related claims or disputes in which the target group is or has been involved;
- reviewing agreements relating to the material IT systems used by the target group, including licences, support and maintenance agreements and outsourcing contracts;
- reviewing the target group's compliance with the UK GDPR and DPA 18, in particular as regards its privacy policies, appointment of data processors and cross-border data transfer arrangements;
- vetting the extent and ramifications of any personal data breaches or security incidents; and
- determining whether and what rights to use personal data will transfer to the buyer.

The above investigations are also important for any carve-out or asset-purchase transactions, together with the following additional considerations:

- As carve-outs or asset purchases necessarily involve the separate assignment of assets and contracts, it is particularly important to ensure that all IP rights that should transfer to the buyer will be effectively transferred.
- All licence and other contracts will need to be reviewed to determine whether they can be effectively assigned without the need for

counterparty consent. Under English law, to legally transfer the burden of obligations, a tripartite novation agreement is, strictly speaking, required; however, in many cases it is market practice to give notice of assignment backed up by appropriate contractual indemnities and to rely on achieving assumption of obligations through the counterparty's continued dealings with the assignee.
- Shared IP rights will also need to be properly allocated and cross-licensed between the parties after closing.
- It will also be important to consider the need for technology and knowledge transfer assistance if not all key employees will transfer.
- The purchaser should assess whether appropriate consents have been obtained or if other grounds exist to support the transfer of personal data to it and the subsequent planned use of that data in the purchaser's business.
- Invariably, a carve-out structure gives rise to the need to assess all other key technology and operational interdependencies to determine what transitional and longer-term arrangements need to be put in place to allow for effective separation of brands, IT systems, databases, research and development capabilities and manufacturing, supply and distribution networks.

Customary searches

5 What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?

The buyer's counsel will usually carry out:
searches of publicly available databases maintained by the UK IPO;
searches using commercial search database facilities covering multiple jurisdictions, in each case to verify the information provided;
in the data room concerning the target group's registered IP portfolio or to identify all proprietary registered IP rights owned in relation to the target business;
depending on the transaction timetable and value of particular IP rights to the target business, searches carried out to identify:
- potential third-party trademark rights that may impact on the value of the trademark portfolio or pose issues to expansion of the business; or
- potentially problematic patents owned by third parties;
- whois searches for domain name registrant information (but note that due to data protection restrictions, registrant information is often unavailable); and
- searches of websites operated by the target group to analyse privacy policies, terms of service and other publicly available information regarding the target business (including the Information Commissioner's Office Register of Fee Payers).

Registrable intellectual property

6 What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?

In the United Kingdom:
- trademarks are registrable with the UK IPO or via WIPO by designating the United Kingdom; however, it is also possible to gain unregistered rights in a trademark;
- copyrights and database rights are not registrable;
- patents are registrable with the UK IPO and registration is required for the protection of patents – this can be done by means of a UK patent application, under the Patent Corporation Treaty or by a European Patent application via the EPO designating the United Kingdom. The European Patent system is not a function of the EU and continues unaffected by Brexit;
- rights in know-how and other confidential information are not registrable;
- design rights are registrable with the UK IPO or under the Hague Agreement by designating the United Kingdom, but there is also unregistered design protection (including semiconductor topography rights as a special type of design right) that may be available (with different eligibility criteria, and with a different scope); and
- domain names are registrable with domain name registrars and registration is required. They are not, however, a personal property right but are rather more analogous to a chose in action or a benefit under a contract.

Liens

7 Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?

Under English law, security interests can be taken over IP rights, with the exception of know-how. Security interests over IP rights are often granted under a 'global' debenture securing all the assets of a company and usually are in the form of a legal mortgage or a fixed or floating charge.

There is no obligation to register a charge with UK Companies House in order to perfect the relevant security interest, but failing to do so within 21 days of creation of the charge means that it is void against the liquidator, the administrator and any creditor of the company. Registration of a charge with Companies House is, therefore, highly recommended to anyone who has an interest in the charge.

A security interest taken over UK IP rights also does not need to be registered at the UK IPO for it to be perfected. However, such registration is recommended, because registering the security interest at the UK IPO constitutes notice of the charge, thus ensuring that any later acquirer of the right acquires it subject to the charge. Registration of the charge at Companies House has been held by the courts to not always constitute valid notice if the third-party purchaser could not, in its normal course of dealings, be expected to search the Companies House register.

Buyers typically conduct due diligence on security interests taken over registered UK IP rights by performing searches of the online databases maintained by the UK IPO. If the security interest has been recorded against the relevant IP right, this can be seen on the online records for that IP right. However, as recordal of the security interest is not required for it to be perfected, if the UK IPO database does not show any security interest over an IP right, that is not conclusive evidence that no security interest has been taken over it.

Further, it is not possible to record a security interest that has been taken over unregistered IP rights, as there is no register on which to record the security interest. In the case of companies registered in England and Wales, buyers typically conduct searches of the Companies House register and raise enquiries with the seller to ascertain whether security interests have been taken over the IP rights of the target group, and also ask for a warranty that the IP rights of the target group are not subject to any encumbrances.

If a financing is being paid off in connection with the contemplated transaction, the parties typically agree that any security interests securing this financing would be released at closing. If any such security interest has been recorded at the UK IPO, notice should be given to the UK IPO post-closing to remove the interest from the records of the relevant IP right.

Employee IP due diligence

8 | What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?

Due diligence in respect of employee-created and contractor-created intellectual property and technology first involves ascertaining the extent to which employees or contractors have been involved in the development of material intellectual property, the location where these employees or contractors are based and the terms on which they have been employed or engaged. This is because the position on first ownership of technology and inventions created or discovered by employees and contractors is a question of national law in the jurisdiction in which the work was carried out.

In the United Kingdom, employers will generally own rights in technology and inventions created or discovered by their employees in the course of their employment (absent any contractual provision to the contrary). Absent an express written assignment, the rights in any contractor-created technology or inventions will remain with the contractor (with an implied licence arguably being granted in favour of the engaging company).

Following disclosure of the relevant employment or contractor agreements, it is necessary to analyse the provisions relating to intellectual property to determine whether the target company or the employee or contractor owns the intellectual property in technology or inventions that have been created or discovered.

As a general rule, employment and contractor agreements should ideally contain the following (although the absence of certain such provisions in employment agreements may not be an issue if ownership of the relevant IP rights has automatically vested in the employer by operation of law):

- an assignment of all rights in all work products and intellectual property created by the employee or contractor (ideally, there should also be a present assignment of future rights);
- a provision obliging the employee or contractor to perform all acts and execute and deliver all documents necessary to perfect the target company's ownership of all work products and intellectual property; and
- robust confidentiality provisions governing the use and disclosure of know-how and other confidential information.

Transferring licensed intellectual property

9 | Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?

Under English law, licences of intellectual property or other rights are generally treated as personal to the licensee, which means that they cannot be assigned without the consent of the licensor. This is because it is thought that the choice of a particular licensee may have been central to the licensor's decision to grant a licence at all, and therefore it is appropriate that the licensee should be prevented from assigning it to a third party at will. However, to clarify this, most IP or technology licences explicitly prohibit transfers of the licence by the licensee without the consent of the licensor. Frequently, this is qualified so that transfers are permitted without consent to other companies within the same group as the licensee, which will facilitate any intra-group reorganisation that the licensee may wish to carry out. Alternatively, or in addition, licences may provide that the licensor's consent to any assignment must be not unreasonably withheld or delayed, so as to permit more flexibility by the licensee in its choice of assignee. In general, exclusive licences are more likely to contain absolute prohibitions on assignment than non-exclusive licences.

The licensor's rights to assign are usually stated to be unfettered, so that it may assign the licence to any third party on notice to the licensee, but it does not need to acquire the licensee's consent to this.

If the licence is silent as to the party's rights to assign, it is generally accepted under English law that the licensor has the right to assign the licence at will, but the licensee may only do so with the consent of the licensor. This can vary depending on the facts surrounding each case, but this is the usual position in the absence of unusual circumstances. For the avoidance of doubt (and disputes), a well-drafted licence will explicitly set out each party's rights to assign and any limits to these.

It should be noted that English law only permits the assignment of the benefit of a licence (or any other form of contract) but not the burden of it. This means that the assignee would receive the rights granted, but would not be subject to any of the obligations set out in the licence. If it is intended that the entire licence, including the burden of fulfilling the obligations under it (such as payment of a licence fee), be taken on by the assignee then the licence must be novated, rather than assigned. A novation is a tripartite contract to which each of the licensor, the existing licensee and the assignee must be a party, under which the assignee formally agrees to assume the burden of the licence, along with the benefit of it, and the licensor acknowledges that the existing licensee is released from the licence entirely.

Software due diligence

10 | What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?

Software due diligence typically involves:

- identifying key proprietary software, if any, of the target group and how it has been developed;
- undertaking the due diligence steps in relation to employee or contractor-created intellectual property;
- ascertaining from the target, whether any of its key proprietary software products or systems contain any software that has been licensed from third parties and reviewing any related licences;
- determining whether and how proprietary software is licensed or distributed to third parties and reviewing any standard form licence agreements, and a sample of customer agreements that have been entered into, to identify any provisions that might unduly impact the business or its value; and
- ascertaining from the target:
  - whether any open source software has been incorporated into, distributed with, or used in connection with the development of, the target group's proprietary software; and
  - the licence terms under which each piece of open source software has been used.

It is necessary to review relevant open source software licences in light of the way in which the open source software has been deployed, and how the target company's resulting proprietary software is licensed or distributed, in order to determine whether the use of that open source software raises any material issues.

In the course of due diligence for technology M&A transactions in the United Kingdom, it is not customary for target companies to provide code scans for third-party or open source software code as a matter of course. However, it is not unusual for this to occur depending on the materiality of the software code at issue, the nature of the transaction and whether any potential open source issues have been identified.

Other due diligence

11 | What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?

Due diligence undertaken in relation to emerging technologies, such as artificial intelligence, the internet of things, block chain, crypto currency, autonomous driving and big data is fundamentally the same, from an IP perspective, as in relation to more established technologies because the underlying rights will be the same or similar and will need to be the subject of substantially the same diligence processes.

This will include establishing the owner of the relevant IP rights (primarily copyright in the software involved, database rights in the data being processed and any patents that have been granted or applied for in relation to any of the component parts) and examining the terms of any licences that have been granted to, or by, the target in relation to any of these.

Personal data and privacy issues are central to many emerging technologies and are, therefore, of increased significance in due diligence with respect to these technologies. One of the most vital areas of any emerging technology diligence process will be to seek to establish that appropriate security measures are in place as regards the data involved, and that the rights of the relevant individuals in relation to their personal data that is being processed are being appropriately safeguarded, in compliance with applicable data protection laws (including, in the United Kingdom, the UK GDPR and the DPA 18).

Given the reliance of most emerging technologies, in particular internet of things, block chain, crypto currency and autonomous driving, on connectivity (via the internet or telecommunication networks or other connection and data exchange technologies), cybersecurity is a further particular focus of due diligence with respect to such technologies.

A further area of concern is the problematic question of liability for damages resulting from malfunctions of complex and interconnected software, networks and IT devices and, in particular, from 'decisions' made by artificial intelligence systems.

PURCHASE AGREEMENT

Representations and warranties

12 | In technology M&A transactions, is it customary to include representations and warranties for intellectual property, technology, cybersecurity or data privacy?

Buyers in technology M&A transactions typically require a wide range of warranties for intellectual property, technology, cybersecurity and data protection, although the scope of such warranties, as well as the applicable qualifiers and limitations, will depend both on the nature of the business and on the bargaining power of the parties. Warranties in transactions that are run as auctions tend to be limited. IP warranties are usually based on a broad definition of IP rights (which also includes rights that, at least under English law, are not technically IP rights, such as rights in know-how and confidential information, rights in goodwill and to sue for passing-off and rights in or to domain names).

Key IP warranties address such matters as:

- ownership, free from encumbrances, of all IP rights purportedly owned by the target group;
- full disclosure of material IP licences (in and out), which then customarily benefit from the 'material contracts' warranties;
- lack of infringement (usually knowledge qualified) by the target business of third-party IP rights or by third parties of material target-owned intellectual property;
- no challenges to the validity or enforceability of registered intellectual property;
- ownership of all rights in employee and contractor-created materials;
- protections afforded to confidential information and the circumstances in which it has been disclosed; and
- open source software usage and lack of disclosure of the source code of proprietary software.

Key themes of IT warranties are:

- the target group's ownership of, or continued rights to use, key IT systems;
- disclosure of all material IT agreements (together with covering them with material contracts protections); and
- comfort that all IT systems are in good working order and have not suffered significant security breaches or disruption.

Privacy warranties focus on compliance with the UK GDPR and other applicable privacy laws, including as regards collection of data, appointment of processors and cross-border data transfers, and lack of regulatory investigations or third-party allegations of non-compliance.

Customary ancillary agreements

13 | What types of ancillary agreements are customary in a carveout or asset sale?

Customary ancillary agreements include the following:

- Short form deeds of assignment to transfer assets (including IP rights and technology). These deeds are then used for recording assignments of registered intellectual property.
- Transitional services agreements governing continued provision of support services (such as IT or back office functions) to facilitate the transition of shared functions from the seller's group to the buyer's group or vice versa.
- IP licences, such as a transitional trademark licence to allow the buyer to rebrand in a measured way and longer-term technology licences (in either direction) addressing 'shared' intellectual property.
- Depending on the specific features of the transaction, manufacturing and supply agreements, distribution agreements, research and development agreements, joint procurement agreements and long-term service agreements.

Conditions and covenants

14 | What kinds of intellectual property or tech-related pre- or post-closing conditions or covenants do acquirers typically require?

In the period between signing and closing, the responsibilities imposed on the seller may include a variety of housekeeping tasks, such as:

- obtaining third-party consent to change of control or assignment of IP licences;
- amending material IP or IT contracts as may be required to successfully integrate the target into the buyer's business;
- seeking out missing documents relevant to proof of chain of title;
- the execution of assignments from contractors or consultants, where the ownership of previously developed intellectual property is not clear from the existing documentation;
- tidying up material domain name registrations to ensure that they are held in the name of a target company; and
- remediation of open source issues.

Pre-closing, there are typically obligations on the seller to continue to maintain and protect the intellectual property that is being sold, not to dispose of any material intellectual property or let it lapse, not to enter into, amend or terminate any material IP licences and not to commence or settle any IP-related litigation.

Post-closing, there are likely to be obligations on the seller to assist the buyer in perfecting title to the intellectual property being sold (such as by lodging confirmatory assignments or forms required by relevant registries to enable the registers to be updated). Post-closing exclusivity or non-compete obligations may also be required, preventing the seller from using, for example, any technology or brands forming part of the sale in a way that is likely to infringe the buyer's rights or unfairly compete with the buyer in the future.

Survival period

15 | Are intellectual property representations and warranties typically subject to longer survival periods than other representations and warranties?

There is no hard and fast rule as regards the survival of IP warranties; this will vary case by case and depend largely on the significance of intellectual property to the transaction as a whole. It is not uncommon to have the warranties identified as fundamental survive longer than the business warranties. However, IP warranties will not normally form part of the fundamental warranties. Where there is no identified set of fundamental warranties, all warranties (including those relating to intellectual property) will typically be subject to the same survival period.

Breach of representations and warranties

16 | Are liabilities for breach of intellectual property representations and warranties typically subject to a cap that is higher than the liability cap for breach of other representations and warranties?

Any cap on liability will be the subject of negotiation a case-by-case basis. The cap may be higher, or indeed lower, for IP warranties depending on the value and significance of the intellectual property involved and also on the level of risk that has been identified in the diligence process. For example, there may be a known possibility of patent infringement that may significantly alter the value of the intellectual property being acquired.

Typically, liability for fundamental warranties is capped at 100 per cent of the consideration and non-fundamental warranties are capped at a much lower level (eg, between 5 and 25 per cent of the total consideration).

17 | Are liabilities for breach of intellectual property representations subject to, or carved out from, de minimis thresholds, baskets, or deductibles or other limitations on recovery?

In general, IP warranties are treated in the same way as the wider business warranties, unless there is a particular reason as to why such treatment should differ. If there is such a reason (eg, a significant risk has been identified in due diligence) then that risk is likely to be the subject of an indemnity.

Indemnities

18 | Does the definitive agreement customarily include specific indemnities related to intellectual property, data security or privacy matters?

In English law, contractual indemnities are generally only provided in relation to a known risk which, if it crystallised, would give rise to a substantial loss or other material damage to the target business. This most commonly arises where there have been IP infringement allegations made against the target, but no formal litigation has been commenced. Also, given that the ICO is empowered to apply a maximum penalty of: (1) £17.5 million; or (2) 4 per cent of worldwide turnover (whichever is higher), and that there is a possibility of substantial damage to the business's reputation should any significant breach emerge, any known possibility of non-compliance is very likely to give rise to a request for an indemnity by the buyer. Liability for indemnities of any kind, including those that relate to intellectual property and data protection or cybersecurity, is often subject to a much higher cap than that which applies to the general warranties, or there may be no cap at all. Additionally, specific indemnities are not usually subject to de minimis thresholds, baskets or deductibles.

Walk rights

19 | As a closing condition, are intellectual property representations and warranties required to be true in all respects, in all material respects, or except as would not cause a material adverse effect?

In general, the only warranties that are likely to give rise to a right for the buyer to walk away at closing are those classified as fundamental warranties. As previously mentioned, IP warranties will not usually form part of the fundamental warranties, although this may vary depending on the significance of the intellectual property to the transaction, the length of the gap between signing and closing and any known risks associated with the intellectual property.

It would not be typical to introduce a general materiality qualifier for any warranties given at closing, but rather the original signing warranties would be repeated on the same basis as they were given originally.

UPDATES AND TRENDS

Key developments of the past year

20 | What were the key cases, decisions, judgments and policy and legislative developments of the past year?

This last year has seen the end of the End of the Brexit Transitional Period and the passing of the Implementation Period Completion Day on

WHITE & CASE

Lindsey Canning
lindsey.canning@whitecase.com

Tom Matthews
tom.matthews@whitecase.com

Philip Trillmich
philip.trillmich@whitecase.com

5 Old Broad Street
London
EC2N 1DW
United Kingdom
Tel: +44 20 7532 1000
Fax: +44 20 7532 1001
www.whitecase.com

31 December 2020. From this date, certain Retained EU Laws continue to apply to the UK.

From an IP perspective, generally, holders of EU trademarks, registered community designs and community plant variety rights registered or granted before IP Completion Day will automatically become holders of comparable IP rights in the UK.

Trademarks

For any EUTM already granted and in force as of the IP Completion Day (31 December 2020), the UK IPO automatically granted an equivalent UK national trademark whereby the priority date filing date and renewal date of the EU registration are retained for such UK equivalent trademark. This registration was automatic and no fees were payable. Some holders of EUTMs may therefore now also have separate UK trademarks that they were not specifically aware of. Any EUTMs that were pending as of 31 December 2021, need to be filed as UK applications by 30 September 2021 in order to retain the same filing priority as the original EUTM. This conversion process is important as of the IP Completion Date, EUTMs are no longer effective in the UK.

Registered designs

Similarly, Registered Community Designs (RCDs) ceased to have effect or be enforceable in the UK after the IP Completion Date. Such EU RCDs were therefore automatically duplicated at no extra cost as an equivalent UK-registered design. These UK rights have the same application, registration and priority dates as the equivalent RCD. As with trademarks, RCDs that were pending registration on 31 December have the same nine-month period during which a UK design right can be registered, using the EU filing and priority dates.

Unregistered Community designs

Unregistered designs that came into being before 31 December 2020 have remained effective for the completion of the rest of their three-year term.

Other titles available in this series

ISBN 978-1-83862-727-0