Technology M&A

Contributing editors
Arlene Arin Hahn and Jason Rabbitt-Tomita

2019

GETTING THE DEAL THROUGH

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Technology M&A 2019

First edition

Getting the Deal Through is delighted to publish the first edition of *Technology M&A*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

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 **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Getting the Deal Through titles are published annually in print and online. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

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.

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 Arlene Arin Hahn and Jason Rabbitt-Tomita, the contributing editors, for their assistance in devising and editing this volume.

GETTING THE
DEAL THROUGH

London
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Introduction

Arlene Arin Hahn and Jason Rabbitt-Tomita
White & Case LLP

We are pleased to introduce this inaugural edition of *Getting the Deal Through – Technology M&A*. As technology has rapidly penetrated nearly every facet of our lives, it has also become a leading driver of mergers and acquisitions. The technology sector saw a record-high global deal count in 2017, with over 2,500 deals targeting technology, according to *Mergermarket* data. In the first half of 2018, the technology sector showed no signs of slowing down, with deal value up almost 60 per cent in the first half of the year compared to the first half of 2017. To stay competitive, companies need to either build or buy technology solutions, and often M&A is their best option. The purpose of this guide is to provide an overview of the various factors affecting technology M&A transactions across various jurisdictions.

We begin by exploring the laws, regulations and policies that affect the structure and execution of technology M&A transactions, typically involving intellectual property, data privacy and competition legal considerations. Many technology M&A transactions also deal in sensitive sectors or regulated industries, creating the possibility of mandatory governmental review, or prior approval or authorisation, particularly for those transactions involving foreign investors.

Our commentators also describe the due diligence processes in their respective jurisdictions. Specifically, we describe what a buyer will need to review and evaluate to confirm a target's ownership or rights to use critical IP assets, and how counsel confirms whether the intellectual property is subject to any liens or security interests. In addition, we explore what information is publicly available for searching and confirming the ownership of IP assets, and what requirements exist under applicable law for the effective transfer of IP rights from employees and contractors. Our commentators also discuss how to assess data privacy and cybersecurity risks for the purposes of M&A diligence, legal requirements for the transfer of rights under IP-related agreements, and the processes and procedures for developing software, including the use of open source components.

The representations and warranties and other deal terms for technology M&A transactions are also discussed. Our commentators describe what is customary or 'market' with respect to representations and warranties, covenants and closing conditions for technology M&A agreements across various jurisdictions, as well as the duration of survival periods and liability allocation for breaches of representations and warranties.

With the steady emergence of new technologies and disruption of traditional industries, the technology M&A sector is poised to continue to grow and the demand for tech-savvy legal advisers is set to rise. We hope this book provides our readers with practical guidance and reference points for getting the technology M&A deal through. We want to thank all of the writers and editors for their contributions and dedication to this guide.

Belgium

Steven De Schrijver and Rudi Desmet

Astrea

Structuring and legal considerations

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?

The key laws that may be more relevant for technology M&A than for other transactions in Belgium are the following intellectual property laws.

Trademarks in Belgium are governed by the Benelux Convention on Intellectual Property of 25 February 2005. The Benelux countries constitute one single jurisdiction for trademark purposes. It is, therefore, not possible to obtain trademark protection in Belgium alone. In addition, Belgium is party to a number of international trademark treaties. It is also possible to register a community trademark (CTM): the CTM system provides uniform trademark protection throughout the whole of the European Union and is administered by the Office for Harmonization in the Internal Market.

In Belgium, copyright is governed by Title 5 of Book XI of the Code of Economic Law (articles XI.164 to XI.293). The protection of computer programs is governed by Title 6 of Book XI of the Code of Economic Law (articles XI.294 to XI.304). The content not covered by Title 6 is supplementary governed by the general rules on copyright in the Code of Economic Law. Further, the protection of databases is governed by Title 6 of Book XI of the Code of Economic Law (articles XI.305 to XI.318). Certain provisions of Book I (definitions), Book XV (law enforcement) and Book XVII (actions for injunctions) of the Code of Economic Law are also applicable for the protection of copyrights, computer programs and databases.

In Belgium, the protection of patents is governed by Title 1 of Book XI of the Code of Economic Law (articles XI.1 to XI.91). Article XI.2 also includes the implementation of Directive 98/44/EC on the legal protection of biotechnological inventions. Belgium has signed the European Patent Convention of 5 October 1973, as well as the revised European Patent Convention 2000 (which came into force on 13 December 2007). Belgium is also participating in the unitary patent regulation and has ratified the UPC Agreement with regard to the Unified Patent Court (Regulation (EU) No. 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection).

Designs in Belgium are governed by the Benelux Convention on Intellectual Property of 25 February 2005. The Benelux countries constitute one single jurisdiction for design purposes. Thus, it is not possible to obtain design protection only in Belgium. Belgium has also adopted several international conventions in the field of designs. EC Regulation No. 6/2002 of 12 December 2001 introduced a single, Community-wide system for the protection of designs, which exists in parallel with the Benelux system. Designs can be registered with the Office for Harmonization in the Internal Market. This system provides for two kinds of design protection: registered Community designs and unregistered Community designs.

In Belgium, trade secrets and industrial know-how are protected under the Act of 30 July 2018 and article XI.332 of the Code of Economic Law. Further, article 17(3) of the Act of 13 July 1978 on Employment Contracts prohibits an employee from disclosing trade secrets, business secrets and the know-how of his or her company either during or after the end of his or her employment. Article 309 of the Criminal Code lays down penalties in the case of disclosure of industrial or trade secrets by an employee of a company to a party not employed by that company. Know-how or trade secrets can, furthermore, be protected indirectly under the general principles of tort or by including confidentiality clauses in contracts. Further, article VI.104 of the Code of Economic Law regarding market practices and consumer protection prohibits any act contrary to fair commercial practices. In certain circumstances, unauthorised use of a competitor's know-how or trade secrets may be considered an act of unfair competition.

If it concerns an asset deal, buyers of technology assets need to ensure that the transfer of intellectual property is registered with the relevant office where the intellectual property is registered.

Other laws more relevant in technology M&A transactions than in other transactions are the privacy laws set out in the Belgian Privacy Act of 30 July 2018 on the protection of natural persons with regard to the processing of personal data (replacing the old Belgian Privacy Act of 8 December 1992 on the protection of privacy in relation to the processing of personal data with effect as of 5 September 2018) (the Belgian Data Protection Act) and the General Data Protection Regulation (GDPR). Certainly, when the transaction takes the form of an asset deal and one of the assets consist of customer data that qualifies as personal data, it needs to be checked whether the customers have given the necessary legal consent to transfer their data.

If the target is active in e-commerce, other laws that may be relevant are the Act of 11 March 2003 with respect to certain legal aspects of the services of the information society, the law of 10 December 2009 relating to payment services and Book VI 'Market practices and consumer protection' (articles VI.1 to VI.128) of the Code of Economic Law.

In principle, there are no specific governmental approvals required except for the standard competition approvals (if the merger notification thresholds are met).

Public M&A bids will be subject to the supervision of the Financial Markets Supervisory Authority.

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

There exist no government march-in or step-in rights in Belgium.

The Belgian telecommunications industry has been largely liberalised under the auspices of the European Union but still remains a regulated industry. However, the regulations relate mainly to matters such as the transfer or sublicensing of licences and do not discriminate between domestic and foreign investors. During the privatisation process the Belgian and Flemish governments took a 'golden share' (ie, a nominal share held by the government that is able to activate all other shares in certain specified circumstances) in certain telecommunications companies, but the EU Court of Justice held that such 'golden shares' are only permitted to the extent they are in the general interest.

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?

When there is an asset deal and registered intellectual property needs to be transferred, the parties need to make sure that the transfer is set out in a written agreement and that the transfer is registered with the relevant agency:

- trademarks: the Benelux Trade Mark Office in The Hague or with the Trade Marks Section of the Intellectual Property Office of the Ministry of Economic Affairs;
- patents: the Patent Section of the Intellectual Property Office of the Ministry of Economic Affairs or the European Patent Office;
- models and designs: the Benelux Models and Designs Office in The Hague or with the Models and Designs Section of the Intellectual Property Office of the Belgian Ministry of Economic Affairs; and
- domain names: depending on the registrar, for '.be' domain names, DNS Belgium.

Valid transfer or assignment of copyrights is not subject to any conditions, although proof of transfer can only be brought against the author in writing.

All contracts are interpreted restrictively in favour of the author (article XI.167 Code of Economic Law). An important restriction is that the author cannot transfer his or her moral rights. He or she can transfer the exercise of individual moral rights to third parties (eg, collective collecting agencies) but cannot transfer the actual ownership of the moral rights as a whole.

Another restriction is that, if an author wants to benefit from tax-friendly copyright royalties under the Act of 16 July 2008, in return for the transfer (or licencing) of his or her copyrights, it is highly advisable to describe the transfer (or licencing) and the amount of the royalties in sufficient detail in a written contract.

The same applies to any trade secrets, know-how and database rights.

Due diligence

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?

Since the target's technology and intellectual property are the most valuable assets to an acquiring tech company, a thorough and comprehensive due diligence of such assets is essential to ensure future revenue streams and restrict legal actions in the post-merger phase. Such due diligence usually focuses on owned intellectual property, third-party intellectual property, IP disputes and IT assets.

An important feature of the review is analysing the ownership of the intellectual property. Under Belgian copyright law, software is protected for up to 70 years after the death of the author. However, only the form and expression of the idea is protected.

Anyone is allowed to write a program with the exact same functionality, provided that it is based on a self-developed source code. Just because the target company owns the intellectual property of a certain software, does not mean that it is protected against the copying of the idea. A solution could be found in patenting the software but that method is, in the European context, no guarantee, since there is great disagreement about the patentability of software.

The due diligence should not only focus on the ownership and value of the IP rights, but also – and foremost – on their transferability.

The objective of any intellectual property due diligence audit would be to answer one or more of the following questions about the target's technology assets:

- What was the origin of the technology asset?
- When was the technology asset first conceived and when was the development completed?
- Who are the people who could claim to be an inventor or author?
- What types of IP rights might be available to protect the technology asset and have those rights been protected?
- Has any employee, consultant or other third party used any trade secrets or proprietary technology of others in the development, support, maintenance or enhancement of the technology asset?
- Does any third party have IP rights that could be violated by past or future uses of the technology asset?
- Have any offers of licences or assertions of proprietary rights infringement claims been received and is there any litigation pending or threatened?
- Where consultants or independent contractors have been used to develop the technology asset, have adequate measures and agreements been taken to protect the proprietary interests of the hiring party and to ensure that the hiring party owns the rights to the technology asset?
- If any portions of the technology asset were purchased or licensed from third parties, what rights were acquired by the technology company? Are there any obligations that, if breached, could result in a reversion of rights back to the third party?
- Have necessary registrations been made and transfers recorded with the appropriate agency?
- Has the technology asset been used to secure performance of any obligations or are they encumbered by any security interests or liens?
- Do third parties hold any licence rights, joint ownership rights or other rights in the technology asset?
- Is the technology asset substantially similar in function, appearance or coding to the technology asset of others?
- If proprietary materials and documentation of the company are held in escrow, what are the terms of the escrow arrangement (eg, conditions for release).
- Are the technology assets sufficient to operate the licences?
- Are there any restrictions on the company's technology assets (eg, exclusive rights of first refusal or negotiation, non-competition, pricing restrictions, no-assignment or change-of-control provisions)?

The answer to these questions may affect the value of the technology asset to be acquired and be determining for the decision whether or not to acquire the target company or the technology asset at all.

Another specific area of due diligence that is typically conducted in a technology M&A transaction is privacy and cybersecurity due diligence.

If a target's data processing activities are not in line with applicable data protection laws, this entails major risks for the buyers. Violations of data protection laws within the European Union are, since the adoption of the GDPR, subject to fines up to €20 million or up to 4 per cent of the total worldwide annual turnover.

Recent high-profile data breaches on companies like Yahoo!, Equifax, Target, Anthem, Uber, Facebook and British Airways have highlighted the risks associated with data security. Data breaches subject companies to significant liability arising from shareholder lawsuits, government investigations, remediation costs and reputational damages. According to Juniper Research, the global cost of data breaches will rise to US$2.1 trillion (€1.8 million) by 2019.

Without sufficiently evaluating whether a target is data protection compliant, buyers risk acquiring a non-compliant business and thus buying into the hazard of serious fines or lawsuits from data subjects.

The only way to understand and mitigate these data protection risks is a comprehensive evaluation of the target. At best, identified non-compliance can be cured prior to closing (eg, by immediate actions of the target curing non-compliant behaviour itself). Where this is not possible or feasible, the identified non-compliance can at least be factored into the risk assessment and valuation in the course of the purchase decision.

For assessing the target's data protection compliance status, the following documents should be requested by purchasers (or be provided by the seller, respectively) in the due diligence process:

- a record of processing activities (to verify that all of the target's processing activities were for lawful purposes and whether the data can be processed for other purposes);
- relevant data protection documents (eg, privacy notices, guidelines, works council agreements, consent forms, data processing agreements, joint controller agreements and data sharing agreements);
- IT, data protection and security concept, documentation of technical and organisational measures;
- an expert session with data protection officers or other informed experts, and possibly the contract, description of tasks and place in the target's organisational chart of the data protection officer;
- documentation of data protection-related self-assessment (eg, on a balance-of-interests test);
- a presentation of data protection organisation and data protection processes (in particular, relating to handling data subjects' requests or the deletion of personal data);
- documentation of all personal data breaches and evidence of related communications with the data protection authorities and the data subjects;

- any data protection impact assessments carried out;
- proof that IT programs used by the target are GDPR-compliant (human resources, payroll software, monitoring equipment and geolocation equipment);
- cybersecurity policies and response policies;
- information on all regulatory or criminal proceedings in relation to data protection issues (eg, correspondence with data protection authorities);
- information on all other disputes with data subjects (eg, civil claims);
- supporting documents that the target secured all essential rights to commercially use personal data and only for current or also for new purposes (eg, provisions in general terms and conditions, individual contracts, in the supply chain); and
- data privacy or cybersecurity insurance coverage.

A third area of specific due diligence that may be more relevant in technology M&A transactions involves the IT systems (eg, encryption, restriction of access, passwords, safeguarding of sensitive data). IT systems will include hardware and software. With respect to hardware, relevant due diligence information could include:

- diagrams of the hardware infrastructure;
- an inventory of the relevant hardware assets;
- relevant third-party agreements (eg, vendor maintenance agreements); and
- possible disaster recovery and business continuity protocols.

With respect to software assets, relevant due diligence could include:

- an inventory of software used by the target, including information on ownership and licences;
- agreements related to software assets such as licences, support, maintenance, development, assignment and escrow agreements;
- documentation, including policies, manuals and information on user access protocols; and
- active or planned development programs.

With respect to the IT systems, buyers should check that:

- they are bug free;
- they have not had any material security breaches;
- they have not had any material outages affecting business;
- they are in fair condition and sufficient for the normal functioning of the business;
- all necessary licences are in place;
- the maintenance and support agreements are still running; and
- adequate IT investments are budgeted to meet the business plan and be compliant.

This due diligence is usually undertaken by the chief information officer of the buyer and his or her team, who should be involved from the beginning on a technology M&A transaction.

A final area of due diligence that may be more relevant in technology M&A transactions relates to websites, webshops and social media assets. Privacy policies, disclaimers, general terms and conditions, supply and logistics agreements; compliance with applicable laws (eg, information obligations, advertising), investigations, complaints and disputes may need to be reviewed.

The focus of the legal due diligence will vary slightly depending on whether the ultimate transaction is an asset or a share purchase. In an asset purchase the buyer will, of course, only focus on the assets it will purchase. Where in general the due diligence in an asset purchase transaction is not as demanding as in a share purchase transaction, in a technology M&A transaction, special attention will have to be given to the transferability of the intellectual property vested in the sellers' technology assets (eg, formalities required to transfer intellectual property or no assignment clauses in licensing agreements) or the transferability of certain data assets that qualify as personal data (eg, legal consent of the data subject with the transfer).

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?

When conducting technology M&A, the seller usually performs advanced trademark, domain name and patent searches, as further discussed below. This is in addition to standard public searches of publications in the annexes to the Belgian Official Journal, which include details on the appointments and resignation of directors, persons in charge of daily management, members of the management committee and, in some cases, proxy holders (but not shareholders). Further, the company file, which will include the company's articles of association and other notarial deeds that have been enacted (eg, capital increases), and documents filed with the National Bank (eg, annual accounts, report statutory auditor and annual report) should be with the registry of the commercial court.

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?

Benelux trademarks can be registered with the Benelux Trademark Office in The Hague. European Trademarks can be registered with the EU Intellectual Property Office in Alicante (Spain). There is no separate Belgian trademark regime.

Patents can be registered with the Patent Section of the Intellectual Property Office of the Ministry of Economic Affairs or with the European Patent Office.

Benelux models and designs can be registered with the Benelux Models and Designs Office in The Hague. European Models and designs can be registered with the European Union Intellectual Property Office in Alicante. There is no separate Belgian models and designs regime. For European models and design, there is a separate mechanism in which no registration is required. Protection under this unregistered mechanism is, however, limited (up to a maximum of three years) and is subject to extra conditions.

Domain name registrations are not technically IP rights but are often addressed alongside IP registrations and applications. Belgian domain names can be registered with DNS Belgium. Top-level domain names can be registered with a whole range of international authorities.

In Belgium, copyright protection arises automatically as the work is created and published. No registration is required (or even possible). The same is true for trade secrets and know-how.

For intellectual property that can be registered, the seller will usually conduct a worldwide search through appropriate databases or with the assistance of specialised IP offices. In addition, due diligence is conducted on the documents made available by the seller to the buyer, such as applications, licences and litigations. With respect to unregistered intellectual property, such as copyright, know-how and trade secrets, buyers review all employment and third-party contractor agreements (including development contracts, confidentiality agreements and non-disclosure agreements) to make sure they include property confidentiality and invention assignment clauses. Often, IP due diligence cannot be conducted by lawyers alone, as it is not always apparent from the legal documents whether the IP protection is strong or weak, is sufficient to operate the target's technology and if other companies use similar intellectual property.

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?

With the increasing prominence of intellectual property as a balance sheet asset, it is common for lenders to include intellectual property as collateral in secured debt financing. Thus, the buyer needs to determine if the target has granted any liens or security interest on specific IP assets.

The most common types of intellectual property over which security is granted are patents, trademarks, designs and models. Such rights qualify as intangible movable assets under Belgian law.

Traditionally, it was debated among legal scholars whether it is possible to create a valid possessory pledge on intellectual property under Belgian law.

However, following the entry into force of the new Belgian act on security interests on movable assets on 1 January 2018, it is now possible to create a non-possessory registered pledge over intellectual property, to the extent that the pledge act is not contrary to other legal provisions in which such pledge rights are regulated specifically.

A non-possessory registered pledge will be perfected by registering the pledge in the national pledge register (which is a public, online register). Such registration remains valid for 10 years. Upon release of the pledge, it should also be removed from the pledge register.

However, if any specific law imposes additional perfection requirements for certain IP rights, it is recommended to comply with such additional requirements as well. For example, certain pledges must also be notified to, or registered with, the relevant IP authorities or registration offices to become effective against third parties.

Under the new rules, it is (in theory) also possible to create on non-possessory pledge on software and source codes (to the extent such rights are transferable). Given that the pledge register is a public register, it is not recommended to register the source code in the pledge register. A generic description (eg, 'all kind of software and source codes developed by the pledgor', or a general description of the software without revealing the source code) is also allowed, as long as the object of the pledge is sufficiently determined or determinable.

When conducting a due diligence, it is recommended to perform a search in the national pledge register, but also in the relevant IP registers.

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

When performing due diligence on a target company, the following documents are to be screened on specific clauses (secrecy or confidentiality clauses, IP clauses, etc.) to assess the ownership and assignment of the IP rights of the target company:

- with respect to its employees: individual employment contracts (or covenants thereto), work regulations, codes of conduct, policies, any document holding unilateral instructions, guidelines, approvals or waivers pertaining to IP rights (notices, brochures); and
- with respect to its contractors: service or consultancy agreements (or covenants).

Belgian employment law also provides two types of protection for company secrets (including intellectual property):

- workers are forbidden from divulging any company secrets that they may learn during their professional activity. This ban is imposed on workers during and after the employment contract. Violating this obligation is considered misconduct and may lead to the immediate dismissal of the worker (article 17 of the Act of 3 July 1978 on Employment Contracts); and
- a worker who divulges a secret may also commit a criminal offence, which is punishable with imprisonment and a fine (article 309 of the Belgian Penal Code), although this is rarely applied.

The Belgian Code of Economic Law (articles XI.336/1 to XI.336/5) provides in a definition of company secrets information that is secret (ie, not publicly known or not easily accessible); with a trade value; and submitted to reasonable measures to maintain its secrecy (contractual clauses, physical or virtual safety measures, etc).

Depending on the nature of the activity of the employer (principal) and the type of industry, the employment contracts or the service agreements customarily contain specific IP (transfer) clauses.

A distinction must be made between moral and patrimonial rights:

- moral rights (eg, the right to be named as author or the right to claim or refuse the paternity of an invention): for employee-created intellectual property or technology, these rights always belong to the employee and are not transferable; and
- patrimonial (economic) rights (eg, the right of reproduction or use of the intellectual property or technology) can be transferred to the employer.

Patent

The employer and the employee are free to set forth any IP rights transfer clauses in the employment contract (or in a separate agreement). Except where an agreement expressly states otherwise, an invention is understood as follows:

- a work invention: invention developed within the worker's attributions, as described in his or her job description and while using the resources of the employer (such invention is owned by the employer);
- a free invention: invention made by the employee on his or her own, with his or her own means and outside his or her attributions (such invention is owned by the employee); or
- a dependent invention, such as:
  - an invention of hybrid or mixed type;
  - an invention made by an employee outside the performance of an employment contract but using company resources; or
  - something owned by the employee, although this is disputed in case law.

It is recommended to insert a clause in the employment contract that the employer will own such inventions and will be entitled to file for patent protection, possibly with a compensation method for the employee.

Similar language will be required in contracts with independent contractors. Failing that, any inventions made by independent contractors will be owned by them.

Trademark

Trademarks always belong to the natural person or legal entity on behalf of which the trademark is registered. Any transfer must be agreed in writing and registered with the relevant trademark office.

Computer software

Under the Belgian Code of Economic Law (article XI.296) there is a legal presumption of transfer of IP rights on the computer software to the employer if the software is created during the execution of the employee's functions or following the employer's instructions, unless otherwise agreed.

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?

In some cases, the technology or IP assets to be acquired in a technology M&A transaction will be subject to certain contractual provisions that either limit the buyer's ability to exploit those assets or the intellectual property as expected, or prevent any transfer of the technology assets or intellectual property altogether. The following are the most common examples of scenarios leading to these unfortunate results:

- the target company has granted a third party a licence to use its intellectual property and:
  - the licence is exclusive with respect to a particular field of use or territory, precluding the buyer from exploiting the intellectual property in overlapping fields of use or territories that may be key to the buyer's business; or
  - the licence is non-exclusive, but grants the licensee either an option to convert to an exclusive licence or a right of first refusal in the event of a pending acquisition; or
- the target company has licensed certain IP assets from a third party, and:
  - the licence grants only non-exclusive rights to the target, leaving open the possibility that competitors will hold or be able to obtain a licence to the same intellectual property, which the buyer may deem critical to the ongoing business;
  - the third-party licensor has retained the exclusive right to use the intellectual property within a particular field or territory;
  - the licensed rights do not include the right to any improvements or enhancements of the licensed intellectual property that would permit the licensor or third-party licensees of the licensor to develop new versions of the intellectual property and compete with the buyer;
  - the governing agreement requires continued payment of licence fees or royalties that will be the buyer's obligation post-acquisition;
  - the licence terms do not allow for sublicensing of the intellectual property, which may be critical to the buyer's intended business model; or
  - the licence terms expressly prohibit assignment of the licence to the buyer.

It is, therefore, important to scrutinise all of the target company's agreements, pursuant to which, an IP licence is granted to or from a third party, focusing, in particular, on terms governing assignability and exclusivity, and to determine if any third-party consents or waivers must be requested as pre-closing conditions.

With respect to transferability, the intellectual property or technology licence agreements can either contain a no-assignment or a change-of-control clause. A no-assignment clause usually prohibits the licensee from assigning any of its rights under the licence agreement except with the prior written consent of the licensor and is usually triggered when there is an asset deal but not when there is a share deal. A change-of-control clause usually gives the licensor the right to terminate the licence agreement in the case of a change of control, and is usually triggered by a share deal but not by an asset deal. Usually, the buyer will require a written waiver or consent of the licensor as a pre-closing condition.

When there is a share deal and nothing is foreseen in the licence agreement, the licence agreement usually remains valid and no formalities must be fulfilled.

When there is an asset deal and no-assignment clause is foreseen in the licence agreement, the licensed intellectual property or technology can, in principle, be transferred by means of a written assignment agreement. Except in the case of copyright and know-how, the assignment must also be registered with the relevant agency:

- trademarks: the Benelux Trade Mark Office in The Hague or with the Trade Marks Section of the Intellectual Property Office of the Ministry of Economic Affairs;
- patents: the Patent Section of the Intellectual Property Office of the Ministry of Economic Affairs or the European Patent Office; and
- models and designs: the Benelux Models and Designs Office in The Hague or with the Models and Designs Section of the Intellectual Property Office of the Belgian Ministry of Economic Affairs.

Whether a licence agreement is exclusive should not change the treatment except that exclusive licences will more likely include no-assignment or change-of-control clauses and almost always require consent of the licensor with the assignment (asset deal) or change of control (share deal).

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?

First of all, the buyer should investigate the seller's rights in any proprietary software included in the purchased technology assets, particularly if the purchased software includes software that the seller licences or distributes to customers, and software licensed from third parties that is not readily replaceable or is costly to replace.

For software created by or for the seller and included in the purchased assets, the buyer should confirm that all relevant rights have been assigned to the seller and can be conveyed to the buyer. In particular, if the software is created by a non-employee, it is important that all rights are expressly assigned to the seller.

For software licensed to the seller by third parties and included in the purchased assets, the buyer should ensure that the rights licensed in to the seller are consistent with the rights the seller has licensed to its customers or other third parties. In particular, the buyer should confirm that, if the licensed rights are terminated, the applicable licences permit the buyer's customers to continue using the licensed software; and the buyer continues to have the right to provide its customers with maintenance and support.

Further, for material third-party software licensed to the seller and included in the purchased assets, the buyer should determine whether the seller is either in possession of a copy of the source code or party to a source code escrow agreement.

A source code escrow agreement gives the licensee access to and the right to modify the licensor's source code on the occurrence of certain conditions (for example, if the licensor enters bankruptcy or ceases operation and cannot continue providing maintenance and support).

Finally, it is customary for the buyer to ask the seller to show that the company understand and uses open source applications and ask to document how open source is used within the target and its products. Relevant due diligence information could include:

- policies and procedures;
- code reviews;
- 'copyleft' and similar open source usage; and
- attribution and notice requirements.

Best practices for a growing amount of companies involved in a technology M&A transaction include an independent code audit whenever software is a significant part of the deal. Indeed, more and more firms are realising that an open source code audit also should be part of their overall due diligence process. Indeed, in modern software development, code is rarely written from scratch. Custom code now often comprises only 10 to 20 per cent of many applications, with the remainder being previously developed code, third-party code and, increasingly, open source code as the core foundation for applications. In fact, it appears that about 95 per cent of code bases contain undisclosed open source. Open source may come with legal obligations in their licence agreements that go with the usage of that code. There also may be security vulnerabilities within the code as well as operational risks such as versioning and duplications. Software audits allow to identify open source code and third-party components and licences and may allow to mitigate potential legal, operational and security issues. The software audit is mostly undertaken by the buyer, but can also be undertaken by the seller as part of its vendor due diligence to give assurance that it can give the strict IP representations and warranties that are usually required or can mitigate certain risks.

So, buyers must carefully review whether the target has combined open source with proprietary software in a way that requires the software to be made publicly available under the open source licence and evaluate the third-party code. Indeed, open source software licences can be important in a proposed transaction as they may dictate the terms on which software derived from such open software is licensed to third parties. If the buyer is expecting to use the target company's technology exclusively, then discovering that the technology incorporates software that is subject to free-use rights could be a deal-breaker.

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

The focus of the approach of the due diligence set out above is on a more 'traditional' information technology environment. Information technology is increasingly being acquired as 'software as a service' or in the context of cloud computing and where a target engages or makes use of such services, this category of agreements will require separate and careful consideration. When acquiring or merging with a provider of cloud applications, platforms or infrastructure in the cloud, special attention should be paid to issues such as the ownership of the data or applications run in the cloud, compliance with mandatory rules with respect to international data transfers, exit possibilities, etc.

Machine learning, deep learning, neural networks and other forms of artificial intelligence are often already an integral part of a target's business operations when conducting technology M&A. When conducting the due diligence and drafting M&A documentation in relation to an artificial intelligence (AI) company, buyers should give special attention to IP protection of data sets and algorithms (eg, copyright, trade secrets and patents), ownership of intellectual property developed by AI, ownership of content generated by AI, licensing issues, liability issues, regulatory, privacy and cybersecurity.

Internet of things (IoT) devices often contain components of different manufacturers. They are often low price devices with low levels of security. So, when acquiring manufacturers or operators of IoT devices buyers should properly review liability, intellectual property, privacy, IT security and consumer protection issues. However, IoT could also raise additional environmental (eg, waste management) or health and safety issues.

Key technologies relating to autonomous or semi-autonomous driving include automated automotive technologies, collision avoidance technologies, artificial intelligence and machine learning, and others. When acquiring companies in this field, sellers should focus on the ownership of these technologies (eg, patents, trade secrets), ownership of data, regulatory issues (eg, government authorisations, test results) and insurance.

If a target is involved with big data, the seller should, during its due diligence, prioritise the following areas of the target's business operations related to information and its related risks and liabilities: data privacy, data security, information governance, regulatory inquiries and insurance policies covering information-related topics (including data breach and infected system issues).

Purchase agreement

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

Buyers will want to confirm that the seller is the sole and exclusive owner of the intellectual property it is selling and that the intellectual property is not limited or subject to any encumbrances. The buyer will also want to ensure that the seller has the appropriate licences for any third-party intellectual property and that the seller is not subject to any pending or threatened legal proceedings challenging its IP rights.

Examples of matters that may limit a buyer's ability to exploit any intellectual property it acquires and for which buyers typically require representations and warranties include:

- claims by third parties that patents are invalid or infringe on their patent rights;
- liens on the intellectual property;
- invalid evidence that contractors or third parties have assigned their rights to any property they helped create;
- rights of first refusal or exclusivity in favour of third parties;
- failure to obtain consents of third parties;
- failure to properly register the intellectual property;
- restrictions in inbound or outbound licences; and
- open source issues where the intellectual property is in the public domain.

Buyers typically want a warranty that the seller's business does not infringe, misappropriate or violate any other party's IP rights and that no other party is infringing the seller's rights. They will also want a warranty that there is no litigation or claims pending or threatened that may happen post-closing.

To the extent that it is not possible to eliminate data protection risks in the due diligence phase before signing, adequate data protection warranties should be included in the purchase agreement. Those representations may vary but often include representations regarding:

- compliance with privacy laws (eg, due respect for the rights of data subjects and the effective possibility for the data subjects to exercise those rights), industry-specific security standards and contractual requirements and terms of use relating to personal data;
- implementation of security measures in relation to information technology assets (eg, industry-standard security measures);
- detection of data-related claims or complaints and compliance investigations;
- disaster recovery plans and back-up procedures;
- disclosure of arrangements under which data is placed with or by third parties (eg, data processing agreements);
- absences of loss or unauthorised access of personal data in the past (whether or not constituting a violation of the law at the time); and
- a security assessment and remediation of any gaps.

One consideration could be to treat data protection similarly to environmental risks in the share purchase agreement, including a potential audit to establish a baseline and remediation process.

Data protection representations and warranties referring to the knowledge of the target should only be accepted by the purchaser if a sufficient level of data protection organisation at the level of the target can be verified in the due diligence phase. The characteristics of a sufficient data protection organisation should include, in particular, appropriate technical and organisational measures to reduce the likelihood of protection violations right from the start.

The definitive agreement should contain representations and warranties that take into account all IP-related and data-related risks discovered during the due diligence and the seller's or the target's indemnification obligations for any breach of those representations and warranties. The definitive agreement should also contain carefully drafted disclosure schedules that list the IP assets or data assets being acquired and any exceptions to or encumbrances on that intellectual property or those data.

Update and trends

Technology convergence, where non-technology companies buy technology firms (and sometimes vice versa), is definitely an overarching trend. Until recently, the majority of technology companies were sold to other technology companies; now, all companies need to be technology-driven. Technology acquisition has become one of the most important drivers of M&A pursuit. A few hot sectors are, in any event, AI enablement, IoT software, data science monetisation, smart logistics and connected health.

Legally, we see an increased focus on privacy and cyber due diligence as a result of the implementation of the GDPR on 25 May 2018 and the growing awareness among investors that resulted from this and all the security breaches that have been publicised. There has also been a slow but steady rise in the use of warranty and indemnity insurance in technology M&A transactions.

For foreign technology M&A investors, it may be of interest that, as of 1 July 2016, income derived from, for example, intellectual property of copyrighted software, can benefit from a new tax regime, named the Innovation Income Deduction. Under this regime, Belgian taxpayers can deduct 85 per cent of qualifying net innovation income from their corporate income tax basis.

Sellers from their side will try to limit the scope of these representations and warranties by including materiality qualifiers and knowledge qualifiers, by limiting representations and by limiting any ambiguous representations.

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

In a technology M&A transaction where the buyer is acquiring less than all of the seller's business, it may be necessary for the seller to provide the buyer with a transitional trademark licence to allow the buyer to use some of the seller's retained intellectual property for a limited period of time and a specified use. This situation often arises where the seller has sold a part of its business, such as a business unit or division, and the buyer seeks use of the seller's retained trademarks until the buyer can transition the related products or services to new trademarks.

A cross-licensing agreement is a contractual arrangement between two or more parties in which each party is granted rights to a piece of technology, product, research or other subject. Cross-licences generally occur between companies that hold patents over different aspects of the same product or when different aspects of a technology are protected by different forms of intellectual property (eg, when the copyright of the software is owned by one party and the patent rights with respect to the hardware are owned by the party that developed the hardware). Cross-licences allow the buyer and the seller of a technology to use a particular technology even if they do not own all the IP ownership relating to that technology (eg, when only part of a business is sold).

When a company is sold in an M&A transaction and the seller is expected to continue to provide services to support the post-closing company, the parties to the transaction enter into a transition services agreement (TSA), which governs the provision of such services to the post-closing company. Depending upon the complexity of the transition services arrangement and the criticality of the services being provided, TSAs can range from short, back-office administration services agreements with an agreement to set fees in the future and no formal performance standards, to comprehensive service agreements with a defined scope, service levels, variable fee arrangements, and detailed data security and privacy provisions. The transitional services might include finance and accounting, human resources, information technology and procurement. The objective is to ensure business continuity while the new company establishes its own internal capabilities or to transition these services to a third-party vendor.

A technology M&A transaction may also require various ancillary agreements dealing with personal data including:

- a transitional services agreement dealing with post-closing data integration and services;
- a data-sharing agreement to govern data transfers pre-closing; and
- where appropriate, other licensing and data processing agreements for the operation of the business post-closing.

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

If there is a time gap between signing and closing, the definitive agreement typically foresees that the seller covenants that it must conduct its or, where the seller itself is not the target company, the target company's business as usual until closing. Known as the interim operating covenant, this covenant assures the buyer that the target business is operated in the ordinary course of business and is in the same condition and of the same value at closing as when the buyer conducted its due diligence and appraisal of the target business. The interim operating covenant may include a list of specific actions before closing that the seller must take, not take or not take without the buyer's consent. This list depends on the industry of the target company and deal-specific factors.

Common interim operating covenants relating to intellectual property include:

- not licensing, encumbering, assigning or otherwise disposing of any IP assets of the target business; and
- making necessary filings and payments to maintain the status of the target business's registered intellectual property.

Other common IP-related pre-closing covenants include:

- making necessary filings to record the release of security interests or update the chain-of-title of registered intellectual property;
- executing and delivering IP assignment documents, including assignments suitable for recording with the applicable government authorities; and
- authorising the transfer of domain names with the applicable registrars.

Management of the seller, together with IP counsel, will need to consider the extent to which the company can comply with these covenants without harming the company and its business. If possible, the definitive agreement should provide that if the seller determines that it must deviate from any of these covenants, the consent of the buyer to such deviation should not be unreasonably withheld, delayed or conditioned. A lengthy pre-closing period is more likely to invoke these issues than a relatively shorter pre-closing period.

The parties may also include post-closing covenants in the definitive agreement to cover the licence or transfer of specific IP or IT rights or performance of specified services after the closing. In a carveout transaction, these covenants may address:

- a licence to retained or shared intellectual property: the buyer may seek a licence or covenant not to sue from the seller relating to the buyer's use of intellectual property used in the target business that the seller intends to retain after closing;
- a transfer of know-how: where certain key employees with knowledge of IP or IT matters are not being transferred with the acquired business, the buyer may require the seller to make the retained employees available for consultation or training for a limited time after the closing to ensure that all know-how associated with the purchased assets is actually transferred to the buyer;
- separation or replacement of shared IT contracts: in addition to any transitional assistance that the seller may provide or cause to be provided to the buyer under a separate transition services agreement, the buyer may seek to include a post-closing covenant in the purchase agreement requiring the seller to provide assistance in negotiating replacement licences or support agreements for enterprise systems and other software or IT services that are retained by the target company for continued use in its business and may not be covered under the transition services agreement.

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

Buyers typically prefer to lengthen the period in which they may bring claims against the seller post-closing relating to breaches of warranties relating to intellectual property because, in their view, the acquisition of a technology company is substantially an acquisition of the company's intellectual property.

Deal studies show that in 5 to 10 per cent of Belgian transactions there is a longer survival period for IP representations and warranties. However, in technology M&A transactions, this percentage is probably substantially higher.

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?

In general, we see maximum cap carveouts in respect of liabilities for breaches of IP representations and warranties in 5 to 15 per cent of all M&A transactions. In technology M&A transactions, this percentage is substantially higher, sometimes 30 to 50 per cent. Whereas, usually, the general maximum liability cap is in the range of 30 to 40 per cent, for breaches of IP representations and warranties, the maximum liability cap is set at 100 per cent of the purchase price. In most cases, the sellers will not want to sell if there is no cap on their liability.

Further, often there is no general maximum cap carveout with respect to liabilities for breaches of IP representations and warranties, but specific indemnities are foreseen for specific IP risks established during the due diligence. Certainly, if there are financial investors among the sellers, a compromise may be to foresee warranty and indemnity insurance as these financial investors are usually not prepared to accept the high maximum liability caps and lengthy survival periods

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that technology investors sometimes require. However, warranty and indemnity insurance is not a substitution for due diligence or disclosure schedules and, in most cases, risks identified through these processes will be excluded from standard warranty and indemnity insurance.

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?

Usually, liabilities for breach of IP representations are not carved out from, and thus subject to, de minimis thresholds, baskets or deductibles unless a specific IP risk is established during the due diligence and a specific indemnity is included in the definitive agreement. In that case, the buyer will be indemnified euro-by-euro if this risk materialises.

Owing to potentially high fines arising from the GDPR, reputational issues and possible claims from data subjects, from the perspective of the buyer, no financial caps, or, at least, higher financial caps, should be agreed with regard to the data representations and warranties. Experience shows that Belgian sellers usually require some form of maximum cap. If there are specific data-related risks, ideally they are remedied before closing or alternatively covered by a specific indemnity. Breaches of specific indemnities are generally excluded from the calculation of de minimis and basket thresholds or deductibles.

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

Ongoing IP litigation is a classic example of a situation where it may be reasonable that the seller offers a specific indemnity. Identified IP risks where there is a certain likelihood of costs for the company at some point in time after closing of the deal, are also often being subject to specific indemnities. Often the definitive agreement in transactions where intellectual property constitutes the core value of the company contains a general indemnity against third-party infringements of the intellectual property that is at the heart of the technology sold, as no limitations and disclosures can be accepted against the warranty that the use of this technology does not infringe third-party intellectual property.

Special indemnities may be foreseen for specific data-related liabilities established during the due diligence (eg, infringements of the GDPR or data breaches).

The buyers may also consider, based on their diligence, how the privacy and cybersecurity representations should be treated related to other representations. For example, for unknown privacy and cybersecurity problems, buyers can push for the privacy and cybersecurity representations to be treated as 'fundamental representations' so that they are not subject to the same survival, caps and baskets limitations as non-fundamental representations. And for either known or unknown cyber risks, buyers could negotiate for a 'specific indemnity', subject to a separate set of limitations and methods of recovery.

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?

As intellectual property is usually one of the core assets in a technology M&A transaction, buyers usually require, as a closing condition, that the IP representations and warranties are true in all respects and do not accept any materiality qualifier or material adverse effect-clause with respect to such representations and warranties. Buyers will usually want a 'walk-away right' with respect to breaches on the IP representations occurring between signing and closing that does not preclude that they may waive this 'walk right' if after due diligence of the breach it only appears to be a minor breach.

Brazil

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Structuring and legal considerations

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?

Technology M&A in Brazil differs from ordinary M&A transactions owing to specific laws and regulations applicable. Besides general copyright regulations (Law No. 9,610/1998, the Berne Convention and the Agreement on Trade-Related Aspects of Intellectual Property Rights), intellectual property related to software is further regulated by Law No. 9,609/1998. There are also specific rules dealing with the use of the internet, with a potential impact on technology business (Law No. 12,965/2014), and personal data privacy (Law No. 13,709/2018, which will enter into force in February 2020).

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

There is no current provision or past record of government march-in or step-in rights. However, exclusive exploration of IP rights is time-limited before ending up in the public domain.

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?

Legal title over technology and IP assets and rights, when registered before the National Institute of Industrial Property (INPI), is conveyed through the expedition of the respective certificate, according to the rules established by Law No. 9,279/1996 and Normative Instruction INPI No. 70/2017.

Due diligence

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?

Due diligence in technology M&A transactions must cover the analysis of the situation of the assets and the rights, and consider any possible objection from third parties that may affect their property and exploration. In the case of carveouts or asset purchase, there is the additional concern of properly transferring property title before the INPI.

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 INPI offers public tools to search and verify the situation of assets and rights. Besides this, the main process of registration steps are available in the public records. Additionally, there are private companies that perform additional searches for competitors and potentially equivalent 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?

Invention, innovation or utility models can be patented. Brands, logos, projects, and hardware and software can be registered. Personal creation and source codes of software can be copyrighted. Due diligence to each must verify title situation of the assets and identify possible upcoming conflicts with third parties.

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?

There is no restriction to liens or security interest granted on IP or technology assets, nor a specific process to publicly record such grant. Contractual representation and warranties are commonly required to assure acquirers' uncontested property.

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

Due diligence with respect to employee- and contractor-created intellectual property and technology aims to ensure title over their rights. Parties must have formally agreed on the transfer to the target.

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?

Transfer or assignment of licensed intellectual property and technology shall be registered before the INPI, with specification on the term and exclusivity traits of the operation.

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 aims to verify property of software developed or acquired by a target, and authorisation to explore software in use in the business. Open source codes are not provided to each other.

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

Deals with special or emerging technologies and sensible to the point that regulation has been rapidly developing. Therefore, risk of restrictions to the application of the new technology ought to be searched, identified and considered before the deal is finalised.

Purchase agreement

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

Absolutely. Representation and warranties are fundamental to protect an acquirer from aspects not disclosed or identified during the due diligence process. In general terms, these clauses must cover the legitimate title of property and absence of claims from third parties or authorities.

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

The most relevant ancillary agreements are those that bind target's customers to keep contracts in force despite the transfer or assignment of IP assets and rights. Communication of the transfer of property to the INPI is also needed to give notice to third parties.

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

Acquirors typically require target to take all procedures necessary to embed the transfer of title of the intellectual property. Historic studies, related to the development of such property, are also usually requested. Immediate changes and future assistance – according to the case – may be negotiated.

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

Survival periods of representations and warranties are equivalent to the period in which breaches might be identified or cause effects to the acquirer. While the target wishes to close the deal, the acquirer seeks to ensure implementation of the transaction and its desired effects.

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?

It cannot be said that liabilities for breaches of IP representations and warranties are typically subject to a higher or lower cap than the liability cap for breach of other representations and warranties.

Update and trends

Brazil's General Data Privacy Law, modelled on the provisions of the EU General Data Protection Regulation, is currently the hottest topic. The rules regarding the outsourcing of employees has recently gone through the relevant changes, the topic of compliance still attracts lots of attention and discussion, and mediation is likely to be affected by new and innovating changes in technology.

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?

There is usually no limitation of liability for the breach of IP representations. On the contrary, in cases of material breaches that compromise the premises of the deal, there are situations in which the whole deal can be undone and the acquirer claims for damages.

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

Definitive agreements usually include specific indemnities related to the functionality of intellectual property and losses that derive from data security or privacy matters.

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?

There is no general rule as to if truthfulness of IP representations and warranties is required in all aspects or only to the extent that they do not cause a material adverse effect. This will depend on the type of intellectual property being transferred and the level of tolerance the acquirer has to future change.

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Structuring and legal considerations

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?

The Chinese government regulates technology transactions through several laws and regulations. The key laws and regulations include the following.

Transfer of technology

The Contract Law, 1 October 1999

This law defines 'technology transfer agreements' to include patent transfer agreements, patent application right transfer agreements, know-how transfer agreements and patent licence agreements. The law sets out rights and obligations of the transferor and transferee under technology transfer agreements, as well as the liabilities for breach of contract. For example, the law provides that the transferor shall guarantee that it is the legal owner of the technology to be transferred, and that such technology be complete, accurate, valid and able to achieve the goals agreed to by the parties.

Pursuant to this law, the transferee must keep confidential the 'secret' part of the technology to be transferred within the agreed scope and term. If the transferor fails to transfer the technology as agreed, it must return part or all of the royalties it received for the transfer and will be liable for breach of contract. If the transferee fails to pay royalties as agreed, it will have to pay the liquidated damages set forth in the agreement. If the transferee fails to do so, it must terminate using the patents or know-how, return relevant technical materials and be liable for breach of contract.

In addition, the law provides that any technology contract that illegally monopolises technology (see below), impairs technological development (see below) or infringes a third party's technology, is invalid.

The Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts, 1 January 2005

This interpretation further explained the meaning of 'illegally monopolises technology' and 'impairs technological development' in the Contract Law described above. Applicable situations include:

- restricting the other party's technology development based on the transferred technology or use of any improved technology;
- prohibiting the other party from obtaining similar or competing technology from third parties;
- restricting the other party from reasonable implementation of the technology;
- forcing the other party to accept additional conditions for the purpose of implementing the technology;
- unreasonably restricting sources of raw materials, accessories or equipment of the other party; or
- prohibiting the other party from questioning the validity of the technology.

The Patent Law, 1 April 1985

According to this law, patent and patent application rights can be transferred. To transfer the patent or the patent application rights, parties needs to enter into a written contract and apply with the State Intellectual Property Office (SIPO) for registration. The transfer will be effective on the date of registration.

The Copyright Law, 1 June 1991

According to this law, copyrights, other than rights of publication, authorship, alteration and integrity, may be transferred. To transfer copyrights, the parties must enter into a written contract, and they may choose to file such contract with the National Copyright Administration or its local branch.

The Trademark Law, 1 March 1983

The law provides that, to transfer registered trademarks, parties need to enter into a transfer agreement and apply to the Trademark Office of the State Administration for Industry and Commerce (the Trademark Office) for approval. The Trademark Office will make a public announcement once it approves the transfer and the transferee will have title to the registered trademark on the date of the announcement.

The Computers Software Protection Regulation, 1 January 2002, and the Computer Software Copyright Registration Measures, 20 February 2002

According to these two regulations, to transfer computer software the parties must enter into a written contract, and they may choose to register said contract with the China Copyright Protection Centre.

The Integrated Circuit Layout Design Protection Regulations, 1 October 2001

According to the regulation and its implementing rules, to transfer an integrated circuit layout design, the parties must enter into a written contract and register such contract with the SIPO. The transfer will be effective upon the date of registration. In addition, if a Chinese entity intends to transfer its layout design to a foreign person, it shall submit such transfer to relevant governmental authorities for approval when applying for the transfer contract registration.

Cross-border transfer of technology

The Special Management Measures (Negative List) for the Access of Foreign Investment, 28 July 2018

The Negative List sets out industries that are restricted or prohibited from receiving foreign investment. Foreign persons may not invest in certain industries where the Chinese government does not wish to disclose relevant technologies or sensitive information, such as the development and production of precious plant or animal species, production of traditional Chinese medicine, genetic diagnosis and therapy, and nuclear ore and fuel production.

The Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, 3 February 2011 (the National Security Review Notice)

This notice provides that the government may conduct a national security review of a foreign investor's acquisition of domestic enterprises that have key technologies, important energy and resources, or produce material equipment that may have national security concerns. If the government considers that the acquisition may have material adverse impact on Chinese national security, the Ministry of Commerce (MOFCOM) and other relevant authorities have the right to terminate the transaction or ask the acquirer to dispose relevant equity interests or assets to eliminate relevant adverse effects.

The Foreign Trade Law, 1 July 1994

According to this law, the Chinese government divides technologies into three categories: (i) technology that may be freely imported or exported, (ii) technology that is restricted from import or export, and (iii) technology that is prohibited from import or export. Companies that import or export technologies in category (i) must register the import or export contract with MOFCOM or its designated department. Companies that import or export restricted technologies in category (ii) must obtain permits from MOFCOM or other relevant authorities. In addition, the state may restrict or prohibit the import or export of certain technology due to other reasons including the protection of national security, social public interest, or human health or safety; exhausted natural resources; and maintaining the state's international financial status or balance of international payments. The law further provides that the state may adopt any measure to regulate the import to export of technology relating to nuclear, weapons and other military supplies or for the purpose of maintaining international peace and security during wartime.

Regulations on Administration of Import and Export of Technologies, 1 January 2002

This regulation provides that MOFCOM will categorise technologies that are restricted or prohibited from import or export, which categories MOFCOM may revise from time to time. Contracts for importing or exporting restricted technologies may only take effect when the import or export permit is issued, while contracts for importing or exporting unrestricted technologies may take effect upon signing. This regulation further provides that technology import or export contracts must not contain provisions prohibiting or restricting competition.

The Implementing Rules of the PRC Sino-Foreign Equity Joint Ventures Law, 20 September 1983

These rules regulate technologies that may be contributed by foreign investors into joint ventures and technologies that joint ventures may obtain from their shareholders or third parties. The rules require that imported technology be advanced and competitive such that it improves functionality and quality of the joint venture's products, and increase production efficiency or save energy. Further, the technology transfer agreement entered into by the joint venture must meet specific requirements, including:

- the royalties must be fair and reasonable;
- unless otherwise agreed to by the parties, the transferor cannot restrict the area, amount and price at which the transferee exports its products;
- the term of the agreement cannot exceed 10 years;
- the transferee shall have the right to continue using the transferred technology after the expiration of the term of the agreement;
- the conditions for each party to exchange improved technology must be equal;
- the transferee shall have the right to purchase equipment, devices, parts and raw materials using resources as they think fit; and
- the agreement cannot contain any unreasonable restrictions that Chinese law prohibits.

Laws and regulations on the transfer of technology in certain industries

In addition to the general technology transfer regulations mentioned above, the Chinese government has enacted special rules regulating the transfer of technologies in certain industries, including in the areas of medical, aviation, health food, chemicals, biological products, nuclear and military technology.

For technology transfers subject to governmental approval, parties usually include obtaining relevant approval as a condition precedent to the closing of the transaction.

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

See question 1. According to the National Security Review Notice, if the government considers any acquisition by a foreign investor of domestic enterprises (including the acquisition of a domestic company having key technology) to have a material adverse impact on national security, MOFCOM and other relevant authorities have the right to terminate the transaction, and ask the acquirer to dispose relevant equity interests or assets to eliminate relevant adverse effects. The national security review can be initiated by the foreign investor, relevant department under the State Council, relevant industry association, other enterprises in the same industry or in the upstream or downstream industries, or by the review authority itself (ie, an inter-ministerial joint meeting).

In addition, according to the Foreign Trade Law, the government may restrict or prohibit the import or export of certain technology in order to:

- protect national security or public policy;
- protect human health or safety, animal or plant life, and environmental health;
- implement gold or silver import or export related measures;
- protect scarce resources or exhausted natural resources;
- limit the market of the export destination;
- maintain a trading order;
- establish a certain domestic industry;
- protect domestic agriculture, stock farming or fishery industry; or
- maintain the state's international financial status or balance of international payments.

The law further provides that the state may adopt any measure to regulate the import or export of technology relating to nuclear, weapons and other military supplies to protect national security, or adopt any measure to regulate the import or export of technology for the purposes of maintaining international peace and security during war.

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?

Patent and patent application rights

According to the Patent Law, to transfer patent or patent application rights, the parties need to enter into a written contract and apply with SIPO for registration. The transfer will be effective on the date of registration.

Copyright (including computer software)

According to the Copyright Law, to transfer a copyright, the parties need to enter into a written contract, which shall include the name of the work; type of the rights being transferred and the relevant territory; consideration and payment method and date; and liabilities for breach of contract. The Implementing Rules of the Copyright Law provide that parties may choose to file the copyright transfer agreement with the National Copyright Administration or its local branch, but such filing is not mandatory. The transfer will be effective on the effective date of the transfer contract.

Trademark

The Trademark Law provides that, to transfer registered trademarks, the parties need to enter into a transfer agreement and apply with the Trademark Office for approval. The Trademark Office will make a public announcement once it approves the transfer and the transfer will be effective upon such announcement.

Integrated circuit layout design

According to Integrated Circuit Layout Design Protection Regulations and its implementing rules, to transfer an integrated circuit layout

Update and trends

Artificial intelligence, blockchain and cryptocurrency are subject to ongoing consideration by legal professionals and scrutiny by regulators. When acquiring or selling any such technologies, practitioners should work closely with local counsel to understand the potential ramifications of ongoing development of the law and regulation of these areas.

design, the parties need to enter into a written contract and register such contract with the SIPO. The transfer will be effective on the date of registration. In addition, if a Chinese entity intends to transfer its layout design to a foreign person, it shall submit approval of such transfer issued by relevant authorities when applying for the transfer contract registration.

Other technology

Chinese law does not provide specific formalities for the conveyance of non-registered technologies, such as know-how. Usually, such technology can be transferred in the manner and on the date as agreed to by the parties.

Due diligence

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?

With respect to technology and IP assets in technology M&A transactions, to help identity issues that may affect the valuation or closing of the transaction, due diligence normally focuses on the following areas:

- title and encumbrances of the technology and IP assets (eg, whether the IP assets are owned by the target or licensed to the target by a third party, whether the intellectual property is developed by the target or acquired from a third party and whether the IP assets are subject to any pledge);
- IP-related agreements, including relevant employee invention assignment or work for hire provisions in employment contracts, IP licences or assignment agreements, and IP-related provisions in commercial contracts;
- IP disputes and infringement claims, including all past, pending and threatened infringement and other IP-related claims and proceedings;
- IT assets (eg, software systems and support services); and
- data privacy, including the target's internal policies and practices on the collection, use, transfer and protection of personal information.

For carveouts or asset purchases, the parameters of due diligence will be the technology and IP assets to be acquired. Due diligence is also necessary to properly define and describe the scope of assets, and rights and liabilities pertaining to such assets, in the asset purchase agreement.

In a share acquisition, in addition to the typical due diligence areas for an asset transfer, the buyer should review, from a commercial standpoint, whether the target has all the technology and intellectual property necessary for operation of its business as a going concern, after closing. Particular care must be paid to the IT-related agreements to identify change of control provisions that may be triggered by the contemplated transaction.

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?

Public searches at the following online databases or tools are customarily performed when conducting technology M&A due diligence in China:

- the National Enterprise Credit Information Disclosure System, maintained by the State Administration for Industry and Commerce, for corporate particulars of the target;
- the Patent Search and Analysis System of the SIPO for registered patents and published pending patent registrations;
- the China Trademark Database of the China Trademark Office (TMO) for registered trademarks and pending trademark registrations; and
- the '.cn' domain name database of China Internet Network Information Centre for '.cn' domain names.

The buyer may also run a public search at the website of the Copyright Protection Centre of China (CPCC) for registered copyright works (including software). Under Chinese law, copyright is an automatic right, and is not created upon registration. Many copyright owners (especially software owners) nonetheless still register their copyright works with the CPCC as evidence of title in case of potential infringement claims.

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?

Registerable intellectual property includes patents (ie, invention, utility model and industrial design), copyrights, trademarks, plant variety rights and layout designs of integrated circuits. Non-registrable intellectual properties include trade secrets and know-how. In China, copyright works can be registered with the CPCC, but registration is not a prerequisite for the creation of a copyright.

To verify the title of registrable intellectual property, the buyer should request registration certificates or receipts of acceptance of registration applications for registered and pending registrations. Public searches with relevant registration authorities (eg, the SIPO and TMO) are normally performed to independently verify the title of the registered intellectual property.

In terms of non-registrable intellectual property, the buyer may review confidentiality policies, non-disclosure agreements, IP assignments, and work-for-hire provisions under relevant contracts, to form a general view on ownership status of key unregistered intellectual property.

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?

Yes, certain intellectual property (ie, registered trademarks, patents and copyrights) can be pledged under Chinese law. Pledges over registered trademarks, patents and copyrights are perfected by registration of such pledge with the competent authorities (ie, the TMO, SIPO and CPCC, respectively). The release of pledges is also effectuated upon registration of the release with said authorities. The time required for completing the process of perfecting or releasing pledges varies depending on the type of pledged intellectual property. For instance, perfecting or releasing a pledge of patents with the SIPO will normally take a week.

If there is any encumbrance, such as pledge, over intellectual property or technology assets that are to be acquired, the release of such encumbrances, if required, is typically effected on or prior to closing and after the signing of the relevant asset or share purchase agreement.

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

For employee-created and contractor-created intellectual property and technology, the buyer would need to review the intellectual property ownership and assignment or work for hire clauses under relevant employment or development contracts. Public searches will also be undertaken to verify the current title of those intellectual properties if being registered or pending registration with the competent authorities.

Under Chinese law, title to copyrights and patents developed or created by the target's employees in the course of performing their job duties or by utilisation of materials and tools provided by the target automatically vests in the target. However, unless otherwise agreed, ownership of contractor-created copyrights and patents automatically vests in the contractor. Assignment of title of contractor-created patents to the target is deemed effective upon registration of the assignment with the SIPO. No registration formalities are required for the assignment of copyrights.

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?

The transfer or assignment of licensed intellectual property and technology by its owner does not require consent of the licensee. Note that transfers or assignments of trademarks and patents are effectuated upon registration of such transfer or assignment with the TMO and SIPO, respectively. The transfer of registered patents or pending patent registrations by a Chinese individual or entity to a foreign individual is deemed a technology export, which may be subject to certain approval or filing requirements under the Chinese export control regime.

The transfer or assignment by a licensee of its rights and obligations pertaining to licensed intellectual property and technology normally requires consent of the licensor, unless the licence agreement states otherwise.

There is no differentiation between exclusive and non-exclusive licences in connection with the above-mentioned transfer or assignment.

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 undertaken by the buyer's lawyers will normally be focused on the title and encumbrances over the target's software copyright. In China, it is still not common for a target to provide code scans for third-party or open source code as part of 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?

Data security and protection has become an increasingly hot-button area for due diligence with respect to some emerging technologies (eg, big data). The potential buyer must have a thorough understanding of the internal policies and practices of the target on the collection, processing, storage, and transfer of personal data and the target's privacy and information security measures. Data privacy experts may be engaged to conduct standalone data privacy due diligence on the target to assess the target's compliance with privacy and data security requirements and standards, and to identify potential risks that may affect the valuation of the target or create any residual liabilities to the buyer.

Purchase agreement

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

It is customary to include representations and warranties for intellectual property, technology, cybersecurity and data privacy. For intellectual property and technology, representations and warranties usually cover title or the right to use, no infringement, full disclosure on restrictions and no breach of material contracts. For cybersecurity and data privacy, representations and warranties will at least cover compliance with applicable laws and regulations and industry guidelines.

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

Customary ancillary agreements typically include transitional trademark licences, cross-licence agreements and transition services agreements.

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

Typical intellectual property or tech-related pre-closing conditions include signing assignment agreements for intellectual property or inventions, obtaining consents or waivers for asset transfers, correcting chain of title issues, obtaining necessary governmental approvals, and submitting applications to the Chinese registration authorities for the transfer of patents, trademarks, copyright and integrated circuit layout designs. Typical post-closing conditions or covenants include completion of registration of IP transfers (as it generally takes several months for the registration to be completed). Whether remediation of source code issues will be a pre-closing or post-closing condition depends on the commercial negotiations.

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

The statute of limitations for patent, trademark and copyright infringement under Chinese law is two years. The survival period for representations and warranties generally ranges between one and two years.

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?

The liability cap for breach of IP-related representations and warranties is typically the same as the general liability cap for breach of non-fundamental representations and warranties. The general liability cap can range from a certain percentage of the purchase price to 100 per cent of the purchase price.

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?

Liabilities for breach of IP representations and warranties are generally subject to the same de minimis thresholds, baskets or deductions (or other limitations) as the other representations and warranties, unless buyer has a specific concern regarding the target's intellectual property.

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

The parties may negotiate specific indemnities relating to intellectual property. A target's data security or data privacy compliance issues has increasingly become a point for negotiation of specific indemnities as Chinese law compliance on these two issues has become more stringent. The parties will focus on indemnification for regulatory fines imposed on the target, or any compliance issues that may affect any regulatory permits issued to the target for operations affecting data security or data privacy.

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?

Generally, all representations and warranties, including with respect to intellectual property, are brought down at closing, subject to a materiality qualifier. The common practice is to have a materiality qualifier.

Czech Republic

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Structuring and legal considerations

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?

The key Czech laws implicated particularly in technology M&A transactions are: Act No. 231/2001 on Radio and Television Broadcasting, as amended (the Media Act); and Act No. 127/2005 on Electronic Communications, as amended.

The former governs the rights and obligations of radio and television broadcasters and their registration with the Council for Radio and Television Broadcasting (CRTB). The latter regulates the use of the radio spectrum, the allocation and use of radio frequencies, the rights and obligations of electronic communications services providers and end customers, and data protection.

The governmental approvals required for technology M&A transactions depend on a particular type of technology M&A transaction. For instance, a change of shareholders of a licensed TV or radio broadcaster company is subject to prior approval of the CRTB. Obtaining such prior approval is generally included as a condition precedent (CP) in the relevant transaction documentation (eg, share purchase agreement).

In certain types of technology M&A asset deals, additional governmental approvals may be required. For instance, the transfer of radio frequency allocations is subject to prior approval of the Czech Telecommunication Office (CTO), which is also generally included as a CP in the relevant transaction documentation (eg, asset purchase agreement).

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

While step-in rights or march-in rights do not have an identical equivalent in Czech law, below are Czech law concepts that best approximate march-in or step-in rights.

The CRTB is entitled to revoke the existing licence granted to a broadcaster under certain specific circumstances, for instance, if the licensed broadcaster:

- failed to start broadcasting within a particular period after the grant of the licence became effective;
- failed to broadcast for a particular period after the commencement of broadcasting (save for cases involving technical obstacles);
- committed a certain administrative offence stipulated in the Media Act; or
- was convicted of an intentional crime.

Similarly, in connection with intellectual property, the Czech Industrial Property Office (CIPO) (the main public authority having competence in the area of IP rights enforcement) is entitled to cancel a registered trademark under certain specific circumstances, for instance, improper use of a trademark in light of the offering of goods or services for which it is registered for a continuous period of five years without justifiable reasons; the relevant trademark becoming customary in the trade for a product or service for which it is registered owing to the activity of its owner; or the relevant trademark misleading the public, particularly as to the nature, quality or geographical origin of the goods or services for which it is registered.

The CIPO can also grant a non-exclusive right to use an invention if its owner does not use the relevant invention or does not use it in a satisfactory manner and has not accepted a valid offer to enter into a licence agreement regarding the invention within a reasonable time from such offer having been made.

Further, the CTO is entitled to change the allocation of radio frequencies to a particular operator, especially if such change is necessary to comply with the obligations of the Czech Republic arising from an international treaty or the Czech Republic's membership in the EU or another international organisation.

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?

Generally, Czech law distinguishes two main areas of intellectual property. The first includes copyright and related rights, that is, literary, graphic, architectural, artistic and musical copyrights, as well as copyright-related rights, such as rights of performing artists, publishers and record producers (computer programs and databases are also protected under copyright law). The copyright and related protections attach automatically as of creation – such works are not registered. Consequently, legal title to copyright and related rights are conveyed contractually (eg, licence agreements).

The second includes IP rights, that is, patents, industrial designs, utility models, topography of semiconductor products, trademarks, geographical denomination and appellations of origin. Registration principles apply to IP rights; thus, to receive legal protection, an application must be filed with the CIPO.

Consequently, a transfer of IP rights is subject to registration with the CIPO. Along with the application for registration of transfer, the IP rights transfer document (eg, transfer agreement) must be submitted to the CIPO. For the transfer of trademarks, filing a confirmation of transfer (in the form set out by the CIPO) is sufficient.

To transfer IP rights registered with the European Union Intellectual Property Office (EUIPO) or the World Intellectual Property Organization (WIPO), appropriate applications for the registration of transfer must be filed with the appropriate authority (directly with the EUIPO for EU-wide protection, and via the CIPO for IP rights registered with the WIPO).

The CTO must be notified in writing of the transfer of radio frequency allocations by way of legal succession without undue delay (for other transfers than by way of legal succession, see question 1).

Due diligence

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?

Due diligence for IP assets customarily includes a detailed analysis of:

- all intellectual property applied for or owned by the target;

- any intellectual property used by the target at any time during the preceding three years, and any licences or other arrangements permitting the target to use such intellectual property;
- any intellectual property owned by third parties, the use or exploitation of which is or may be necessary or desirable for carrying on the business of the target, and of procedures that currently are or may need to be followed to avoid the infringement of any such rights;
- any licences or other arrangements permitting third parties to use intellectual property owned by the target;
- any objections to, or infringement (including alleged) by third parties of the target's intellectual property and vice versa;
- any circumstances where the benefit, or the right of use, of any intellectual property may be lost or adversely affected (including on a change of control of the target), as well as any fact or matter that might make any of the intellectual property invalid or unenforceable;
- any claims by employees or former employees in any inventions, works or other developments made by such former employees while employed, and any facts or circumstances that may give rise to any such claims;
- any encumbrances or security interests granted in the target's intellectual property; and
- all disputes, arbitrations, proceedings or settlements relating to intellectual property.

Due diligence for technology assets customarily includes a detailed analysis of the following:
- all IT hardware used, together with details of their ownership and any licences or agreements relating to them;
- all software used, together with copyright ownership in the software, any software licences and access to source code;
- all software or hardware maintenance or support arrangements for the target;
- information on any personal data processed by the target and compliance control with respect to the relevant legislation governing the usage of personal data; and
- any encumbrances or security interests granted in the target's technology assets.

In transactions involving carveouts, substantial attention is given to the intellectual property owned by the seller's group outside the transaction perimeter, but necessary for the conduct of business of the target; and IT services provided by the seller's group to the target, and vice versa, to identify the relevant separation issues that should be covered by the transitional services agreement (TSA) and brand licensing agreement (BLA).

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?

Due diligence of targets in the Czech Republic customarily involves a search of the following public registers (not technology specific): the Commercial Register, the Trade Licensing Register, the Insolvency Register, the Criminal Records Register, the Central Register of Executions and the Cadastre of Real Estate.

Particular to technology M&A, additional intellectual property and technology databases and public registers are customarily searched:
- the Patent and Utility Model Database, the Industrial Design Database, the Trade Mark Database, the Database of Geographic Denomination and the Appellation of Origin (all enabling search by owner, applicant or originator data);
- the Database of Allocated Radio Frequencies (enabling search only by frequency data, making it time-consuming to perform the relevant search);
- the Database of Undertakings in Electronic Communications; and
- the list of broadcasters, retransmission operators and on-demand audio-visual media service providers.

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?

As stated above, IP rights under Czech law can be divided into Copyright and Related Rights (not registered) and IP rights (registration principles apply).

Upon submission of IP rights application with the CIPO, the applicant is granted the right of priority, which protects the applicant against subsequent applications for the same and is granted automatically for patent applications, utility model applications and national trademarks applications.

Additional EU and international IP rights protections also exist. The EU trademarks priority claim can be filed using the EU trademark application (which must be submitted within three months following the Czech application). The international right of priority may also be granted, if the international trademark application is filed with the WIPO via the appropriate national office (ie, the CIPO) within six months following the Czech application.

For due diligence typically undertaken with respect to intellectual property, see question 4.

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?

Czech law permits liens or security interests on both IP rights and technology assets, with the exception of geographical denomination and appellations of origin.

In the case of IP rights that are registered in public databases or registers (ie, the Patent and Utility Model Database, the Industrial Design Database and the Trade Mark Database), the lien or security right is registered in such public register at the request of any of the parties to the pledge agreement. Therefore, when conducting due diligence, it is possible for acquirers to perform a search of such registers to determine whether there are any liens or security interests registered in respect of particular industrial property rights.

For technology assets (eg, a particular hardware or technological equipment) that are not registered in any of the aforementioned public registers, the lien or security right can be registered in a special register maintained by the Notarial Chamber of the Czech Republic, the Registry of Securities. Any notary is entitled to provide, upon request, a copy or an extract of the record in the Registry of Securities or a certificate confirming that a particular asset is free of any security interest.

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

Due diligence of employee-created intellectual property and technology typically comprises detailed analysis of the following:
- employment contracts (in particular, the definition of the type of work performed by an employee and whether such definition covers all possible employee-created intellectual property or technology);
- any licences provided by employees for employee-created intellectual property or technology; and
- whether employees are authorised to transfer their property rights to third persons per their employment contracts. Due diligence of contractor-created intellectual property or technology typically entails of detailed analysis of work contracts and licence agreements with the contractors relating to intellectual property and technology.

The general rule under Czech copyright law grants employers the ability to exercise property rights over the work employees create in connection with their employment on the employees' behalf. If the employer desires to transfer such property rights to third parties, the employer must acquire approval of the creator-employee (such permission is considered irrevocable and valid for all future transfers), except for transfer of the business enterprise, where such approval by creator-employee is not necessary.

Under Czech copyright law, for contractor-created work, the contractor is deemed to have provided a licence to the client. Unless agreed otherwise, the contractor remains free to licence such work to third persons, if such licence is not contrary to the legitimate interests of the client. A special rule exists for computer software and databases, which are considered to be employee-created, even if they are contractor-created.

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?

The general rule under Czech law provides that an IP licence cannot be transferred to a third party without the licensor's consent. The Czech Civil Code provides an exception under which, unless the parties agreed otherwise, the licensor's consent is not necessary for transfer of intellectual property as part of the business enterprise (however, in these cases, IP rights cannot be transferred when such transfer is excluded by the relevant licence agreement or by the nature of such IP right itself).

In the case of transfer by way of legal succession, the licence is transferred to the acquirer automatically, unless such transfer is excluded by the licence agreement.

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?

In the Czech Republic, the software due diligence is typically part of operational or technical due diligence (not legal due diligence). During legal due diligence, we customarily review only licence agreements, and contractor and employee contracts related to the development or licensing of software.

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

There is no special legislation for special or emerging technologies in the Czech Republic. Therefore, the Czech law treats modern technologies such as artificial intelligence or autonomous driving systems and software as assets (in line with the general definition of assets under the Czech Civil Code).

New legislation with respect to modern technologies, especially artificial intelligence and robots, is being discussed at the EU level. On 27 January 2017, the European Parliament adopted a report with recommendations to the European Commission on Civil Law Rules on Robotics, in which it urged the preparation of a draft legislative framework relating to the development and use of artificial intelligence within the next 10 to 15 years.

Purchase agreement

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

The warranties for intellectual property, technology and data privacy form part of a standard set of warranties that is, to some extent, included in most M&A transactions. In general, the set of warranties for intellectual property, technology or data privacy is heavier in technology M&A transactions than in M&A transactions involving manufacturing or similar targets.

The relevant warranties customarily comprise the following:

- with respect to intellectual property:
  - the ownership of material intellectual property necessary for the target's conduct of business;
  - no notices on infringement of the target's intellectual property by a third party and vice versa;
  - disclosure of all material licences to use third-party intellectual property necessary for the target's conduct of business; and
  - assignment of employee-created intellectual property as necessary;
- with respect to technology:
  - the materially good working order and regular maintenance of IT systems and no material functionality failure thereof;
  - validity and no notice of breach of material IT contracts; and
  - possession of source codes to all software necessary for the target's conduct of business; and
- with respect to data privacy, compliance with material data protection legislation. The inclusion of cybersecurity warranties is not widespread in the Czech Republic.

In connection with the General Data Protection Regulation (Regulation (EU) No. 2016/679), having entered into force recently (May 2018), the data privacy warranties typically include a warranty on the target having taken all reasonable steps to ensure compliance therewith.

In technology M&A transactions involving targets active in the telecommunications industry, the set of warranties includes, in particular, the warranties on due possession of the relevant regulatory licences and radio frequency allocation decisions.

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

The customary ancillary agreements in technology M&A transactions include TSAs and BLAs.

The TSAs typically govern the post-completion provision of services that, before the completion of the transaction, were provided to the targets at the seller's group level and vice versa. A provision stipulating that either party can request the provision of an omitted service (ie, a service that has been provided prior to carveout, but is omitted from the TSA) is included in the TSAs. The targets benefiting from the transitional services of the seller's group are required to draw up a migration plan setting out the detailed steps of becoming self-sufficient in terms of services provided under the TSAs.

BLAs provide for licences to trademarks and domain names owned at a group level that are bespoke to the target's business. These agreements also contain provisions regarding rebranding and the discontinuation of use of the licensed intellectual property.

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

The CPs are typically limited to the purchaser's obligation to obtain the necessary competition and regulatory approvals for the transaction. Depending on their materiality, tech-related issues arising out of due diligence are customarily dealt with by way of the seller's pre-completion obligations.

Such pre-completion obligations usually depend on the particular issues identified in the course of due diligence and include, for instance: renewal of domain name registrations; assignment of employee-created IP rights; obtaining ownership to intellectual property where only a right of use in respect thereof has been granted to the target; or obtaining change of control consents from licensors under the licence agreements relating to third-party intellectual property used by the target.

Update and trends

In the technology space, a current hot topic in the Czech Republic is the contemplated release of the 700MHz radio frequency band from use by digital terrestrial television broadcasting and its utilisation for wireless broadband electronic communications services. In connection with such release, the transition of digital terrestrial television broadcasting from the current DVB-T standard to a more spectrum-efficient transmission technology, DVB-T2/HEVC, is currently being implemented in the Czech Republic.

Further, there are proposals for EU legislation that may potentially become relevant in the Czech Republic. For instance, in September 2018, the European Parliament approved the Directive of the European Parliament and of the Council on copyright in the Digital Single Market providing for obligations of internet service providers to take measures to prevent network users from sharing copyright-protected content. The European Commission, the Council of the European Union and the European Parliament will enter into trialogues regarding the Directive, which are expected to conclude in the beginning of 2019.

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

The scope of fundamental warranties subject to a longer survival period is typically limited to the warranties relating to the seller's authority to enter into the agreement and title to the shares or assets being transferred, thus IP warranties are not typically included. Therefore, IP warranties are subject to the same survival periods as other operational warranties. The survival periods for such operational warranties vary considerably depending on the type of M&A transaction, and can range from a period of 12 months up to five years.

However, in certain technology M&A transactions, parties occasionally set the survival period at double the survival period for operational warranties (eg, 36 months).

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?

Similar to survival periods, no specific liability cap for a breach of IP warranties is generally included in the transaction documentation. The liability cap for operational warranties vary considerably depending on the type of M&A transaction and can range from a single digit percentage of the purchase price up to 50 per cent of the purchase price. However, in certain technology M&A transactions, parties set the liability cap for breach of IP warranties at 70 per cent of the purchase price.

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 terms of IP warranties, it is not standard to carve these out from the de minimis thresholds, baskets or deductibles, or other limitations on recovery. The warranties provided for under the transaction documentation are customarily subject to the same limitations on liability, regardless of the subject matter to which they relate (except for maximum liability cap, which is typically higher for fundamental warranties).

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

The specific indemnities provided for in a definitive agreement are customarily limited to coverage for the specific risks identified in the course of due diligence. Such specific indemnities can include: indemnification for claims of infringement of a third party's intellectual property confirmed by a binding court decision; employee claims in respect of the development of intellectual property outside of the scope of their employment duties; and the lack of legal title for the processing of personal data.

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 inclusion of a 'walk right' of the acquirer for breach of IP warranties between signing and closing is rather rare (as is the 'bringing down' of all warranties at closing; in some cases, the 'bringing down' of warranties is limited to specific warranties, such as fundamental warranties). If the warranties are 'brought down', usually a similar standard is required at closing as at signing.

However, in certain technology M&A transactions, parties may agree that a breach resulting in the warranties being materially untrue, and such breach resulting in a loss in excess of 50 per cent of the initial purchase price (excluding the earn-out amount), entitles the purchaser to terminate the transaction.

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Structuring and legal considerations

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?

In general terms, all M&A transactions regarding Dominican entities are governed by the New General Law on Companies and Individual Enterprises with Limited Liability No. 479-08, as amended, enacted on 11 December 2008 with the main goal of modernising and updating the existing legislation on corporate matters. Naturally, if the company in question belongs to and operates in a regulated sector, such as telecommunications, for example, certain special laws will apply to the M&A in question.

As key laws, and not exclusively applicable to technology M&A transactions, it is important to mention first Law No. 172-13 on Protection of Personal Data (Law No. 172-13), which came into full force in the Dominican Republic to protect the personal data of individuals in the country, as well as to regulate the establishment, operation and termination of the Credit Information Companies (SIC), previously known as Credit Bureaus, and the provision of credit reference services and supplying information to the market. This law applies to personal data recorded in any database that is used for processing and any type of subsequent use of such in the public and private spheres. Law No. 172-13 updates and improves the former legal regime, while granting greater protection to personal data, and safeguarding the Right to Privacy and Personal Honour contained in article 44 of the Dominican Constitution.

The public or private archives, registers or databases, destined to provide credit reports are subject to the inspection and supervision of the Superintendency of Banks. The provision of services involving the collection, processing and exchange of information on the credit history of a natural or legal person, provided that such information comes from the financial entities regulated by the Monetary and Financial Law, and economic agents, as well as any other information deemed useful for the development of an efficient credit report, such as those of public nature, will only be carried out by the SICs that obtain prior authorisation from the Monetary Board. The application to operate as an SIC will be filed before the Superintendency of Banks, which will process the application and attach its opinion to the Monetary Board. Law No. 172-13 on the Protection of Personal Data only regulates the International Data Movement with foreign governments, international organisation or supranational bodies, requiring the consent of the owner of the data.

In addition, Law No. 20-00 on Industrial Property, as amended, enacted on 8 May 2000, jointly with the Dominican Copyright Law No. 65-00, enacted on 26 July 2000, are legal instruments of utmost importance for technology M&A.

Law No. 20-00 on Industrial Property provides the legal framework for the registration of patents and industrial property rights. The government agency responsible for granting patents and registering industrial property rights is the National Office of Industrial Property (ONAPI), which is under the Ministry of Industry and Trade.

On the other hand, the main objective of the Dominican copyright law is to provide a legal and institutional framework in accordance with the provisions of the Aspects of Intellectual Property Rights Agreement related to Commerce (TRIPS), which allows for the effective protection of copyrights in the Dominican Republic, taking into account the national interest. The National Copyright Office (ONDA), ascribed to the Ministry of Industry and Commerce, is the national authority in charge of the registration and organisation of the applications-related copyright. For these purposes, the law has granted administrative, supervisory and arbitral powers. Its supervisory activities are enforced by the obligation of any importer or distributor of commercial goods, services, and equipment with author or related rights to register the same.

Banking regulations may apply to fintech entities, which have a very high technology component. The current situation regarding fintech in the Dominican Republic is not very different from the rest of Latin America. In spite of the fact that there is no specific regulation for fintech companies in our jurisdiction, the management of the data and, in general terms, the operations of these companies must be in accordance with banking regulations. In this particular sector, the main law to be mentioned is the Law No. 183-02, enacted on 3 December 2012. This law contains provisions regulating the monetary system for purposes of maintaining price stability; and, provisions that regulate the financial system, with the objectives of ensuring compliance with the conditions of liquidity, financial stability and management applicable to financial institutions and to achieve proper functioning of the system in a competitive, efficient and free-trade environment.

There are no particular government approvals required to technology M&A transactions, unless the target entity operates in a regulated sector.

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

There are no government march-in or step-in rights with respect to certain categories of technologies.

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?

The legal regime that regulates the issuance of legal title to each type of technology is provided under Law No. 20-00 on Industrial Property, as amended, enacted on 8 May 2000, and the Dominican Copyright Law No. 65-00, enacted on 26 July 2000.

In the Dominican Republic, industrial property rights are protected by Law 20-00, dated 8 May 2000, on Industrial Property, which modernises the rules applicable to patents and trademarks by adapting them to the agreements of the World Trade Organization (WTO) and creating ONAPI.

It must also be taken into consideration that our registration system for industrial property (trademarks, trade names and patents) are constitutive of rights, meaning that rights are acquired at the moment of registration. However, our legislation provides some exceptions. In light of the above, it is advisable to register any IP rights before using them locally. Our legislation is based on the territorial principle, which is not applied in cases of highly notorious brands.

A patent or patent application may be transferred by a legal act between living persons or by succession. All transfers relating to a patent or a patent application must be confirmed in writing and recorded in ONAPI. The transfer has legal effect for third parties only after being recorded, upon payment of the established fee for recording. Also, an issued patent may be given as a guaranty for an obligation assumed by its holder. For such purposes, ONAPI shall carry out the recording of the privilege in favour of the creditor, issuing the corresponding certification. Likewise, ONAPI, upon receiving formal evidence of the termination of the obligations originating said guaranty, shall cancel the record of the privilege. In the case of a transfer of the patent in foreclosure of the guaranty, the unpaid creditor shall file the documentation corresponding to said foreclosure and shall proceed according to the terms of this law.

In addition, the rights relating to a trademark that is either registered or in process of registration can be transferred by an act between living persons or through succession. Transfer may be made independently of the company or on behalf of the company of the holder of the right, and with respect to all or some of the products or services that the trademark distinguishes. When the transfer is limited to one or some of the products or services, the registration shall be divided by opening a new one in the name of the acquirer. A transfer relating to a trademark that is registered or in process of registration shall have legal force for third parties only after being recorded in ONAPI. The established fee shall be paid for the recording. A commercial slogan must be transferred together with the trademark symbol with which it is associated, and its period of effectiveness shall be subject to that of the symbol.

Finally, the transfer of a company or establishment implies the transfer of the commercial name that identifies it, unless there is agreement to the contrary. The transfer of a registered commercial name may be recorded in ONAPI by virtue of any public document proving the transfer. The recording of the transfer shall be carried out according to the procedure applicable to the transfer of trademarks.

Copyrights are regulated by Law 65-00 on Copyrights of 21 August 2000, which aims to provide a legal and institutional framework in accordance with the provisions of the TRIPS agreement related to commerce, which allows for the protection of copyrights in the Dominican Republic, taking into account the national interest. ONDA, under the Ministry of Industry and Commerce, is the national authority in charge of the registration and organisation of copyright applications.

Dominican law regulates the transfer and dissemination of technology for the benefit of producers and users of technical expertise, in accordance with the provisions of the TRIPS of the WTO, the Paris Convention for the Protection of Industrial Property, the Cooperation Treaty in Patents, Chapter 15 of DR-CAFTA and other international agreements, which gives the Dominican Republic one of the highest levels of protection for intellectual property in the region.

It is important to point out that copyright registration is optional in view that rights are acquired at the moment the work is created, it is nonetheless recommended in order to grant the work a set day of creation.

According to this law, the copyright of each work created in the Dominican Republic consists of moral rights and economic rights. Only an individual may be an author (moral rights). However, an entity may exercise the copyrights and related rights (such as economic rights) as derivative holder (*titular derivado*), in accordance with the rules of such law. In this particular case, it is important to mention that for works created in employment relations, ownership of the economic rights shall be governed by agreement between the parties. In the absence of express contractual provision, it is presumed that economic rights are owned by the author.

Due diligence

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?

In our jurisdiction, the due diligence aspects taken into account for technology and IP assets in technology M&A transactions are, in general terms, quite similar to M&A transactions in other sectors, as long as the technology company is not regulated in a particular sector. Naturally, there is a particular focus on aspects of intellectual property and copyrights, as well as aspects related to data protection. Regarding the different treatment that could be given to mergers or share acquisitions, the investigations during a due diligence process of aspects of intellectual property and copyrights are more exhaustive before the regulatory entities, since in these cases the transfers of each ownership right over the assets must be made expressly through the asset purchase agreement.

In the case of the share deal, the drag mechanism operates. All the rights that were registered in the name of the company, because they are registered in its name, are the property of the buyer (new owner) as a result of the sale of shares through the share purchase agreement.

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?

Two primordial searches are carried out in this type of due diligence: before the ONAPI for industrial property rights; and ONDA for copyrights.

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 principle, as mentioned before, all intellectual property are registrable. Although in certain cases there may be exceptions (or particular requirements that may be needed to complete the requirement) or the registration is not necessarily mandatory for the creation of the property right. By way of example, we can mention that copyright registration is optional since rights are acquired at the moment the work is created, as mentioned before. However, in these cases, the registration is advisable.

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?

Yes. Liens and security interests can be granted on IP or technology assets. In particular, a patent for invention or for utility model, a registration for industrial design and a registration for trademark may be granted as guaranty for an obligation assumed by the holder–registered owner, and may be the object of attachment or other restrictions on control. Such liens and security interest must be recorded in favour of the creditor in the ONAPI, without which they shall have no legal effect. The cancellation of such lien or security interest, in order to be effective, must be requested by an interested party to ONAPI, attaching the correspondent evidence of the termination of the obligation.

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

Usually, all documents and information are requested from the seller or target checklist when the due diligence process is initiated. Additionally, official investigations are performed before the ONAPI and ONDA.

In this sense, pursuant to Industrial Property Law 20-00, if the employee was hired for such purposes, the invention will belong to the employer; on the contrary, if the employee was not hired for positions where he or she needs to invent, the employee will have to notify the employer about the invention. If the employer does not notify its interests in the invention, it will belong to the employee. If the employer does notify its interest in the invention, the employee will be compensated for the invention being registered on behalf of the employer.

According to the Copyright Law, the copyright of each work created in the Dominican Republic consists of moral rights and economic rights. Only an individual may be an author (moral rights). However, an entity may exercise the copyrights and related rights (such as economic rights) as derivative holder, in accordance with the rules of such law. In this particular case, it is important to mention that in works created in employment relations, the ownership of the economic rights shall be governed by an agreement between the parties. In the absence of express contractual provision, it is presumed that the economic rights are owned by the author.

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?

The holder or applicant of a patent may grant to third parties one or more licences for exploitation of the invention that is the object of the patent or application. Such licence must be in writing and recorded in the ONAPI. The licence will have legal effect for third parties only after being recorded. Unless the licence agreement provides otherwise, the following criteria will apply, among others:

- the licensee cannot assign the licence or grant sub-licences (if permitted, such transfers will have to be registered for enforceability purposes);
- the licence is not exclusive and the licensor can give other licences for the exploitation of the patent in this country, and also may himself or herself exploit the patent in this country; and
- when the licence is granted as exclusive, the licensor will not be able to grant other licences for the exploitation of the patent in this country nor him or herself exploit the patent in this country

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?

Not applicable.

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

Not applicable.

Purchase agreement

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

Yes. It is customary to include representations and warranties for IP, technology, or data privacy. In the case of intellectual property and technology, it is usual to include representations and warranties regarding the ownership, veracity and accuracy of the rights disclosed during the due diligence process, in particular, with respect to those rights that may exist without being registered with the regulatory entity; since they would not appear in the official investigation carried out during the due diligence before the competent entities. Also, when needed, specific representations and warranties are included regarding the compliance of data privacy regulations. It is always very important to include a representation and guarantee that ensures that the business model (including all IP and technology rights) on which the business object of the transaction is based is 100 per cent original and that for the creation and development of the same the seller or the target have not violated rights of trademarks, trade names, technical assistance contracts, patents, copyrights, licences, franchises or concessions belonging to other people or entity.

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

In this type of transactions (an asset deal) it is required and needed the execution of ancillary agreements to transfer the IP rights. Usually, the main asset purchase agreement is not filed with the ONAPI or ONDA, and simple forms of transfer or assignment agreement are executed between the parties (on the closing date) to reflect the change of ownership at the public registry. Such filings are performed as a post-closing task by the purchaser, provided that the seller usually has the obligation to assist and collaborate with the purchaser if any further document or information is required or needed to complete this transfer.

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

In our jurisdiction, on the closing date, usually is executed a services agreement for a definitive period of time with key individuals (if they will no longer remain as employees), to cover any assistance that may be needed for the effective business continuity.

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

No. In our jurisdiction, IP representations and warranties are not typically subject to longer survival periods.

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?

No. Typically, liabilities for breach of IP representations and warranties are not subject to a cap that is higher than the liability cap for breach of other representations and warranties. However, this is agreed between the parties and there is no prohibition or restriction on the cap being greater.

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?

No. In our experience, transactions of this nature taking place in the Dominican Republic, liabilities for breach of IP representations are not subject to, or carved out from, de minimis thresholds, baskets, deductibles or other limitations on recovery.

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

No. In our experience, transactions of this nature taking place in the Dominican Republic, do not customarily include under the definitive agreement specific indemnities related to intellectual property, data security or privacy matters.

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?

Usually, for deals of a significant amount, IP representations and warranties are required to be true in all material respects, where a breach would not cause a material adverse effect. Although the term

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'materially adverse change' or 'materially adverse effect' is not established in our legal system or at a jurisprudential level, the parties of common agreement at a contractual level can establish the criteria to apply. Consequently, frequently, this term means any circumstance or event of any kind (including any failure of any litigation, arbitration, investigation or governmental process) that adversely affects the financial condition, operations commercial assets, assets or income (as defined in the contract); being understood as a negative effect a situation that: is not the result of the ordinary course of business, is a product or consequence of an action prior to the closing date and leads to an obligation or contingency equal to or less than the amount agreed between the parties.

In our experience, transactions of a smaller amount require as a closing condition that IP representations and warranties must be true in all respects. Nevertheless, this is not an infallible rule and may change depending on the agreement between the parties.

France

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Structuring and legal considerations

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?

While foreign investment in France is generally not subject to restriction, technology M&A transactions may fall under the scope of identified 'sensitive sectors' for which a prior authorisation by the French Ministry of Economy is required. Under current legislation, these sensitive sectors include electronic communication services and networks, dual-use technologies, encryption and decryption systems for digital applications (cryptology), communications interception equipment, security audit and certification of IT systems or provision of similar services for specified public- and private-sector entities. The detailed definition of such sensitive sectors varies depending on whether the investor is (or is not) a resident of, or incorporated in, an EU or EEA country. Should the target company or target asset be active in a 'sensitive sector', the prior clearance of the French Ministry of Economy shall be required as a condition precedent for the following three types of transactions:

- the acquisition, directly or indirectly, of a controlling interest in a French company (a share deal);
- the acquisition of all or part of a branch of activity of a French company (an asset deal); and
- the acquisition of an interest of 33.33 per cent or more of the share capital of a French company (where the investor comes from a non-EU or non-EEA country).

At the beginning of 2018, the French government announced that the current legal framework applicable to foreign investment control will be expanded to capture new technologies that are considered of strategic importance, such as artificial intelligence, space industry, data storage or data centres and semiconductors. This new legal framework will also include measures to reinforce governmental oversight on relevant transactions (before or after completion thereof) and sanctions applicable in the case of failure by an investor to submit a transaction for prior clearance by the French Ministry of Economy or to comply with the specific conditions or commitments under which a transaction has been cleared.

Other regulatory approvals may also apply in relation to specific regulated technology activities such as encryption, whose import and export must either be notified to or authorised by the French authorities depending on the level of encryption.

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

As mentioned above (see question 1), investment by a foreign investor in specific technology businesses or assets may require prior clearance by the French Ministry of Economy.

In addition, the French Ministry of Defence has a right of expropriation over inventions and semiconductors for national defence purposes. In particular, the French state is allowed to expropriate whole or part of an invention for national defence purposes. This rule applies to patented inventions or inventions for which a patent application has been filed.

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?

IP rights can be assigned alone or as part of an ongoing business (asset deal) or indirectly through the sale of the company holding said IP rights (share deal).

When assigned alone or as part of an asset deal, trademarks, patents, semiconductors and denomination of origin must be assigned in writing. To be enforceable against third parties, patent, semiconductors and trademark assignments must be published in the relevant IP register, which can be at a national, EU or international level depending on the nature of the IP right. Although the French Intellectual Property Code identifies only certain types of copyrights that need to be assigned in writing, it is recommended that any type of copyright be assigned through a written instrument and that such assignment be as detailed as possible, including in terms of scope, purpose, territory and duration. In France, since software falls under copyright protection, the assignment of software follows the aforementioned copyright assignment rules. There is no mandatory obligation to assign domain names in writing but it is recommended that they be assigned through a written instrument for evidence and enforceability purposes.

Databases are either copyright-protected (in which case the foregoing copyright assignment rules shall apply) or not, in which case, it is only recommended that they be assigned in writing. For those databases that contain personal data, it is crucial to ensure that such databases are compliant with relevant data protection legislation. Failure to comply may result in the cancellation of the sale or transfer of such illicit databases. In a landmark decision, French courts ruled in 2013 (before the EU General Data Protection Regulation No. 2016/678 (GDPR) entered into force on 25 May 2018, that is, when prior formalities were still required to be followed to process personal data) that a database that had not been reported to the French Data Protection Authority (CNIL) was illicit and thus could not be validly sold.

When the assignment takes place indirectly as part of a share deal, there are no specific formalities that need to be followed to ensure proper conveyance of the IP assets. The buyer should, however, ensure that the correct name of the owner of IP rights is recorded in the relevant IP register so that such rights are enforceable against third parties.

To protect their technology or know-how, many companies prefer to keep their IP assets strictly confidential and elect not to file an application to register those IP assets. Instead, the companies will enter into non-disclosure agreements that allow them to better control the dissemination of such confidential and competitive information.

Due diligence

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?

Typically, as part of due diligence, a buyer looks at whether the IP assets that are necessary to conduct the target company's business are owned or licensed to the target company. Among the owned IP assets, it is key to assess whether the target company is the only owner or whether those IP assets are co-owned with third parties (including the target company's affiliates) to anticipate any potential future licence-back or cross-licence agreements that may need to be entered into with such third parties. The buyer will also enquire about whether the owned IP assets are subject to any potential claim from third parties, contractors or employees that would have participated in the creation of those IP rights. This is also a key issue in respect of software given that most software is developed using open source libraries, which can be contaminating, and thus can subject the target company's software to certain restrictions in terms of use and distribution.

With respect to the licensed IP assets, the focus at due diligence is whether the target company is the exclusive or sole licensee (ie, whether the target company is the only one authorised to use the licensed IP assets or if the licensor can also use them, in both cases to the exclusion of any third party) or not, or if the licence is not exclusive (ie, third parties can also use them). Most valuable IP assets are usually owned or licensed to the target company exclusively. This assessment requires a thorough review of the different agreements entered into by the target company, including assignment, licence, pledge, customer, service and lease agreements, as well as related terms and conditions. When a carveout is contemplated, acquirers should also ensure that the resulting company will have the necessary IP rights (by way of assignment or licence if the relevant IP rights are to be used by both companies) to conduct its business independently.

Another key area of due diligence is data protection. With the entry into force of the GDPR and the significant sanctions that are now available to data protection authorities, potential buyers are all the more focused on the target company's compliance with data protection legislation.

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?

A potential investor or buyer usually carries out searches in publicly available IP databases (eg, INPI for French IP registrations, OAMI for EU IP registrations or the World Intellectual Property Organization for international registrations) to verify the accuracy of the IP-related information provided by the target company. The findings of the searches usually include the name of the registered owner, the dates of registration and potential expiration, the existence of any registered licence or security interest or any other potential type of restraint (such as limited class of products or services for trademarks, or non-payment of the renewal fee in a given country for a patent).

Private databases, that is, databases requiring a subscription fee, may give additional relevant information, including the existence of any past or pending litigation involving the target company as a claimant or as a defendant or involving the target company's IP assets.

In some cases, such IP databases may also allow the identification of any prior or posterior IP rights owned by third parties, which could constitute an obstacle to the use by the target company (and the potential buyer post-closing) of its IP assets.

With respect to data protection, before the entry into force of the GDPR, the data protection authorities often provided for the list of formalities to be carried out by companies on their respective websites. Even though the GDPR no longer requires formalities to be carried out (since data controllers and processors must keep a register of their data protection activities), such information may still be relevant to assess the target company's compliance for the period before 25 May 2018.

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?

Not all types of intellectual property are registrable in France. The following are registrable: trademarks, patents, designs and semiconductors. In contrast to common law countries, France does not provide for registration of author's rights (equivalent of copyrights in the United States).

Software is not registrable; however, source codes may be held in escrow by a third party, such as a public notary or an agency dedicated to software (eg, APP Agency for the Protection of Programs).

Acquirers will usually need to be provided with the list of intellectual property owned or used by the target company or necessary to run the target company's business on a stand-alone basis. This is particularly important in respect of non-registrable intellectual property since it cannot be found, traced or verified on public databases. The assessment of the nature of non-registrable intellectual property that the target company owns or uses and of the potential associated restraints can be conducted by reviewing the target company's rights and obligations provided under related contracts.

In addition and as mentioned in the response to question 5, due diligence undertaken with respect to registered IP assets include verification of the name of the registered owner, the dates of registration and potential expiration, the existence of any registered licence or security interest or any other potential type of restraint (such as limited class of products or services for trademarks, non-payment of the renewal fee in a given country for a patent, etc).

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?

Yes, specific liens and security interests can be granted on IP rights (eg, trademarks, patents, movies, designs, domain names, software and databases). For unregistered IP rights (such as domain names, software and databases), since there is no legal provision specifically relating to the grant of security interests thereon, it is important to identify the register or the database on which the lien or security interest should be recorded and how to ensure that the lien can be enforced against third parties. Intellectual property rights can also be part of the liens and security interests taken on the tangible and intangible assets of the grantor.

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

When intellectual property is developed or created by an employee or a contractor, it is important to ensure that the rights in such intellectual property are vested in the target company. Patentable inventions that are developed by employees as part of their employment and during the performance of their duties are automatically assigned to the employer who must pay additional compensation to the employee for such assignment. Those patentable inventions that are developed by employees outside the scope of their employment but using resources provided by the employer belong to the employee; the employer may, however, ask to be assigned ownership in consideration of a fair price. Inventions that are developed by employees outside the scope of their employment using their own resources belong to the employee (article L. 611-7 of the French Intellectual Property Code).

Software created by employees during the scope of their employment automatically belong to the employer unless the employment agreement provides otherwise (article L. 113-9 of the French Intellectual Property Code).

All other intellectual property created by employee or contractor belong ab initio to the employee or contractor and, therefore, must be expressly assigned in writing to the employer. In particular, it is recommended that copyright assignments be detailed, in particular, in respect of the scope of the economic rights to be assigned. However, assignment of economic future rights in works is not allowed.

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?

Transfer or assignment of licensed intellectual property and technology must be registered on the relevant IP register to become enforceable against third parties. In practice, non-exclusive licences are not registered. Depending on the terms of the licence agreement, consent of the licensee may be required for the transfer or assignment of the licensed IP and technology. Indeed, such transfer will most likely imply the transfer or assignment of the licence itself.

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?

When software is a key asset of the transaction, specific software due diligence will help with assessing the rights and obligations of the target company associated with such software. The following due diligence is typically undertaken as part of this software audit:

Update and trends

New technologies are at the heart of the current efforts of the French government to boost the French industry and to protect and retain French strategic industries and know-how. In particular, the French government has announced that the French legal framework applicable to national security review will be expanded to include new sectors such as AI, data centres or data storage, and semiconductors. This reform may come into effect by early 2019. It will also include new measures to broaden (subject to and within the limits permitted under EU regulation) the existing regime authorising the French state to create a 'golden share' for national security purposes. Under the newly envisaged legislation, 'golden shares' might be created by decree in relation to identified state-owned companies that hold sensitive or critical assets and would give the French state specific control rights in relation to such assets, notably in cases of transfer of technologies.

In the same vein, the government has announced that French public investment agencies (Bpi, APE) will deploy new funds to invest in French new tech companies with a view to foster their development and, eventually, help protect them from hostile takeovers by foreign investors.

The GDPR is now implemented under French law. Law No. 2018/493 of 20 June 2018 and Decree No. 2018/687 of 1 August 2018 supplement the GDPR and adapt national laws to this new regulation by using the flexibility offered to member states regarding several legal provisions.

The Parliamentary Office for Scientific and Technological Assessment (OPECST) issued a report on 20 June 2018 on blockchains. The report identified the following main legal issues: fraudulent activity, illegal data insertion, tax law, liability system and personal data protection. In particular, there may be issues with identifying the liable person in a dispute relating to the use of an application using a public blockchain as the blockchain system is based on trust between users (and not on a central organisation). The CNIL issued a report on the link between the GDPR and the blockchain in September 2018 but the OPECST remains pessimistic on the possibility of the emergence of a public blockchain that would comply with the GDPR.

- identifying whether the software owned or used by the target company is proprietary or open source-based and who actually developed the source code (the target company's employees or outside contractors);
- verifying that all of the IP rights in the software are vested in the target company;
- identifying any open source software, including open source software used to develop the target company's software, and associated licence terms (eg, Apache) as those licence terms may apply to the software into which open source components have been integrated (contamination effect);
- detecting vulnerabilities of the software components or those components that are not in use, are slowing the software operation or need to be updated or upgraded; and
- assessing whether the software used by the target company is the most efficient and reliable software for the target company.

It is not customary for targets to provide scans for third-party or open source code.

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

The legal framework with respect to special or emerging technologies is itself emerging or non-existent. Additional areas of due diligence undertaken or unique legal considerations with respect to such technologies focus on the following key legal issues:

- for artificial intelligence, whether the software performs tasks that are regulated (eg, providing legal or financial advice);
- for internet of things and autonomous driving, personal data and liability; and
- for big data, on security and personal data, especially focusing on how the system has taken into account the purpose limitation enshrined in the GDPR.

Purchase agreement

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

As technology is of the essence in such transactions, purchasers usually expect to be able to perform extensive technical and legal due diligence on the underlying technology and to obtain a comprehensive set of confirmatory representations and warranties in relation to IP or technology-related matters. The insertion of such IP representations and warranties is generally market practice, although their scope, qualifiers and limitations are negotiated case by case.

The IP representations and warranties in technology M&A transactions will typically cover the following aspects (without limitation):

- legal title to the owned registered and unregistered intellectual property;
- no third-party rights;
- payment of royalties and renewal fees;
- proper recording in IP registries;
- past, ongoing or threatened IP disputes;
- investigation by competent governmental authorities;
- no infringement of third-party rights;
- disclosure, existence and validity of third-party licences necessary to run the business;
- absence of change of control or other third-party approvals required;
- compliance with IP-related contracts (such as licences, cooperation or research and development agreements) and data privacy laws; and
- compliance with legislation on employee invention.

Specific disclosure regarding the use of open source software and the absence of software defects is also a customary ask in relation to software-based businesses.

In addition, with the coming into force of the GDPR and although French data protection has been in existence for 40 years, it is now recommended to include detailed representations on personal data mirroring the various obligations incumbent to data controllers and processors under the GDPR.

In any case, it is important that those representations and warranties be tailored to address the key value items of the acquired businesses or assets, including, where possible, the input from technical experts.

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

The types of ancillary agreements will largely vary depending on the specific features of each transaction. They will generally aim at addressing the status of IP-related assets or contracts with a shared use or dependencies between the disposed business and the seller group organisation.

When certain IP or technology assets or contracts are shared between the disposed business and other activities of the seller, the parties will seek to negotiate appropriate cross-licence agreements, transitional trademark agreements, trademark coexistence agreements, or joint development or cooperation agreements. Ancillary agreements may also include IT transition services agreements and appropriate service level agreements whereby the seller group continues to provide IT services (IT infrastructure, applications) to the disposed business or to the purchaser for a temporary, and usually short-term, period. In such a case, parties will have to discuss the preparation, project management and implementation of an appropriate transition plan and the allocation of the related responsibilities and costs.

It is generally in the interest of both parties to start discussions on the nature and scope of the ancillary agreements as early as practicable in the M&A process as those matters usually require input from legal, financial and operating teams on both sides. In addition, with the increasing influence of the OECD's base erosion and profit shifting principles (notably regarding transfer pricing and valuation of intangibles), we have seen more in-depth discussion in relation to the pricing of such agreements, and their impact on the overall valuation of the transaction.

Wrong-pockets covenants and further assurance clauses are also commonly included in the acquisition documents to address potential misallocation of IP assets or specific post-closing formalities in enforcing the transfer of IP assets.

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

The acquisition documents usually include specific pre- and post-closing covenants in relation to tech-related matters. For instance, to preserve the substance and value of the acquired assets or business, acquirers will typically insert specific restrictions during the period from signing to closing to prevent the seller from disposing material IP assets, licensing IP assets out of the ordinary course of business, or settling or initiating material IP litigation, in each case without the prior consent of the acquirer. To the extent that third parties' consents are required to transfer identified assets or contracts, the seller may also be requested to seek such consents or to cooperate with the purchaser in this respect. In addition, when the acquirer's due diligence has pointed out specific IP issues that can be remedied, acquirers will generally request the seller to fix those issues at its costs, for instance, by carrying out specific registration formalities with IP offices, renewing trademarks or patent registrations, entering into IP or invention assignment agreements or ensuring compliance with the GDPR. In certain transactions, the scope of the seller's post-closing non-compete covenant can be delineated by reference to the use of a certain type or family of technology.

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

While business representations usually survive for an 18- to 24-month period, acquirers in technology M&A transactions tend to negotiate a longer survival period for IP warranties, which may last up to three to five years after the closing depending on deal-specific features.

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?

It is a common feature on the French market for the IP representations and warranties to be treated as part of the business warranties and to be generally subject to the same aggregate liability cap (expressed either as an absolute figure or as a percentage of the purchase price). However, in recent years, acquirers have been pressed in a highly competitive tech M&A market to lower the general liability cap applicable to business warranties – from 15 to 30 per cent of the purchase price down to 10 per cent thereof, especially when no red flags have emerged from due diligence. In this context, we have seen an increasing number of technology deals where acquirers have pushed to get either a specific cap, or an uplift of the general liability cap, with respect to breaches of IP warranties or data privacy regulations.

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?

The IP warranties will usually be subject to the same financial limitations as the other business warranties. By exception, where there are material IP issues, the acquirer may seek specific indemnities for the seller to cover such matters. In such a case, it is usual that all or part of the general limitations (such as de minimis, baskets or deductible) be carved out for the purpose of such specific indemnities or, alternatively, that the parties negotiate a specific set of financial limitations in relation to such specific indemnities.

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

Specific indemnities are not a common feature in the French M&A market unless used to cover specific known issues or circumstances identified through due diligence or disclosure (eg, an ongoing or threatened IP litigation or a known non-compliance related to data security or privacy matters). In such a case, the acquirer will usually be prevented from bringing a warranty claim (as it had knowledge of the issue) but may seek a specific indemnity from the seller to be held harmless from the related liabilities. Similarly, if there have been past technical incidents affecting the disposed business, the acquirer may request the seller to assume the liabilities arising out of such incidents.

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?

It is common in France that the seller's representations and warranties be made both at signing and at closing of the transaction and that the same standard (including carveouts or qualifiers) apply at both times. However, unlike other jurisdictions, it is more the exception than the rule that such bring-down of the warranties be set as a closing condition.

If the specific negotiation context allows for it, the parties might seek to negotiate limited walk rights, for instance, upon the occurrence of extreme events affecting core disposed technologies or IP rights. This may be the case if new events occur during the interim period that would cause a breach of the IP warranties consuming all, or most of, the warranty cap or preventing the continued operation of the disposed business or asset (eg, termination of a core IP licence).

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Structuring and legal considerations

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?

When considering German laws and regulations implicated in technology M&A transactions, one may distinguish between foreign direct investment restrictions that generally apply in the event of a 'threat' to national security and certain overlapping rules applicable to regulated industries.

Foreign direct investment rules

Pursuant to the German Foreign Trade and Payments Act (AWG) and the German Foreign Trade and Payments Ordinance (AWV), the German Federal Ministry for Economic Affairs and Energy (BMWi) is entitled to review inbound transactions by foreign investors based outside the European Union or the European Free Trade Association (EFTA). The BMWi may prohibit or restrict an acquisition should it be deemed to pose a threat to the 'public order or security' of Germany.

The AWV distinguishes between a cross-sectoral review for all industries (typically having a strong nexus to technology) and a sector-specific review that applies to certain sensitive industries. The scope of the latter includes arms and military equipment as well as encryption technologies and other key defence technologies, such as reconnaissance, sensor and protection technology. Both types of review apply irrespective of the size or enterprise value of the business acquired.

The BMWi is entitled to review all acquisitions, whether by way of asset and share deal or by non-EU-based investors. With respect to share deals, this applies to direct or indirect share acquisitions reaching or exceeding a 25 per cent threshold of the target's equity or voting rights. The calculation of voting rights will take into account certain undertakings that may be attributed to the ultimate owner, such as an agreement on the joint exercise of voting rights. Asset deals require a comparable test for the respective asset values, that is, 25 per cent of the assets of the acquired business. In contrast to the sector-specific review, which is applicable to all foreign buyers, the general review process only applies to non-EU or non-EFTA-based investors.

An intervention by the BMWi requires a threat to public policy or security that is assumed for investments into the following (non-exhaustive) list of technology assets:

- operators of critical infrastructure that is of particular importance for the functioning of the community;
- companies developing or changing industry-specific software for the operation of critical infrastructure;
- companies entrusted with organisational monitoring measures for telecommunication facilities;
- companies providing cloud computing services above a certain volume; and
- companies engaged in the area of telematics infrastructure.

The completion of the investment review process for cross-sector reviews is by law not required for the consummation of a transaction. However, foreign investors often decide to initiate the review process by submitting an application to the BMWi for a non-objection certificate to obtain legal certainty for a transaction. Depending on the transaction at hand, the parties may also be subject to a general notification obligation.

Recent acquisitions have shown that the BMWi has become more sensitive to acquisitions by non-EU or non-EFTA investors, especially in the technology sector (see 'Update and trends' for further outlook on this subject and recent proposals on the European level).

Both European and German export control restrictions may also impact M&A transactions in cases where the acquirer is considering 'exporting' technology (including intellectual property, know-how and software) outside Germany to facilitate integration with other group functions.

Sector-specific rules applicable to media, broadcasting and fintech

To provide broadcasting services in Germany, as regulated under the German Federal Broadcasting Treaty, a media provider must obtain permission from either the Commission for Approval and Control at the federal government level or the state media authority at the state government level. The Federal Broadcasting Treaty applies to the provision of broadcasting services in the form of linear information and communication services in picture or sound via radio frequencies, including digital information and communication services, such as those used by livestream providers (eg, Twitch or YouTube). In addition, acquisitions (including certain minority investments) of a media or broadcasting company providing services in Germany are subject to the prior approval of the relevant media authority, subject to the provider operating on a state or federal level. In the absence of such approval, the relevant authority may revoke the broadcasting licence previously granted to the provider.

Certain technology business models within the financial industry (such as fintech and insurtech) may constitute regulated activities, the acquisition of which is subject to an ownership control procedure. As part of such proceedings, the acquirer's creditworthiness and financial soundness will be accessed by the German Federal Financial Supervisory Authority (BaFin). In the case of the acquisition of a majority stake, the future business plan is subject to review by BaFin as well. Even if the target considers itself as unregulated, a buyer should in any event perform its own analysis of whether a regulatory licence is required at present or upon the business model advancing further to avoid unforeseen regulatory issues.

With respect to technology targets that are regulated entities, BaFin may exercise extensive interference rights if an investor acquires shares in such entity without fulfilling the clearance prerequisites. This may, in a worst-case scenario, result in the transfer of the voting rights to a trustee or a disposal order.

Relevant federal intellectual property statutes

Other German statutes relevant for technology transactions include federal acts specifically addressing:

- copyright (including rights in databases and rights in software);
- patents (which may also be granted for software);
- utility models;
- semiconductor topography rights;
- plant varieties;
- trademarks; and
- designs.

As technology M&A transactions often involve a transfer of data, data protection laws applicable in Germany (ie, the directly applicable provisions of the EU General Data Protection Regulation (GDPR) and the additional provisions of the Federal Data Protection Act) may be relevant.

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

Under German law, regimes exist that lead to a result broadly comparable to the exercise of government march-in or step-in rights under the Bayh–Dole Act, which affects government funded research projects in the United States (see answer to question 2 for the United States).

In respect of patents, competent courts can, under certain conditions, grant a 'compulsory' licence to commercially exploit a patent if public interest demands such licence. If a patent owner cannot exploit its invention because of a pre-existing patent, such owner of the 'younger' patent may further be entitled to be granted a compulsory licence in and to the pre-existing patent. Similar rules apply to utility models and plant varieties.

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?

Under German law, the number of IP rights affording an absolute protection toward all is limited to those IP rights codified in specific acts (broadly those mentioned in the last paragraph of question 1).

In general, German IP rights other than copyright (industrial property rights) can be transferred by agreement between the transferor and the transferee without any formal requirements. It is recommendable and common, though, to document a transfer of industrial property rights in a written instrument. For the transfer of supranational applications or IP rights, sometimes, a written form is required (eg, transfer of a European patent application under the European Patent Convention and transfer of an EU trademark).

Copyright itself cannot be transferred under German law because of the author's moral rights. Exploitation of a copyrighted work requires a licence, which can go through multiple tiers, stemming from the author's principal exploitation rights. For transfers of licences, see question 9.

Under German law, domain names as such are not considered an IP right with the meaning set forth above. The registrar operating the German country top level domain '.de' (DeNIC e.G.) in its general terms and conditions and its procedural rules does not envisage a transfer of a domain name as such. Instead, it only envisages a termination of the contract for the registration of the relevant domain name between the current holder of the domain name with the subsequent entering into a new contract for the registration of the relevant domain name with the future holder.

Know-how is also not protected as an IP right within the meaning set forth above under German law. Hence, an in rem transfer of rights in know-how is not possible.

Due diligence

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?

Typical areas of intellectual property and technology due diligence undertaken in Germany with respect to technology M&A transactions include:

- identifying all registrations and applications for IP assets owned by the target and confirming the status, lien status, chain-of-title, expiration date (if applicable), scope of protection and ownership thereof;
- identifying all other IP assets (ie, unregistered intellectual property and IP assets that are not capable of registration) owned or used by the target and confirming the ownership thereof, any restrictions thereon, and the target's scope of rights therein;
- reviewing and analysing the target's agreements with past or present employees, independent contractors and consultants with respect to the creation and ownership of IP assets and the use and disclosure of trade secrets and other confidential information;
- identifying and determining the scope of licences-in and licences-out in respect of IP rights granted by or to the target;
- reviewing and analysing all other IP-related agreements (or intellectual provisions in agreements), including research and development agreements, consulting agreements, manufacturing, supply, and distribution agreements, settlement agreements, and IP licensing and assignment agreements;
- determining and analysing the target's process for IP clearance, protection, and enforcement and for protecting trade secrets and confidential information;
- determining and analysing any past, present, or threatened intellectual property-related claims or disputes involving the target, such as infringement actions, cease-and-desist letters, requests for intellectual property-related indemnification, disputes with past or present employees or contractors, and claims for remuneration for the creation of intellectual property;
- reviewing and analysing the target's processes and procedures for developing software code, including identifying open source or copyleft code, reviewing source code scans, and identifying third-party access to code as well as the target's processes and procedures in respect of employee inventions;
- reviewing and analysing agreements and rights with respect to information and communication technology assets and equipment;
- where the target's business is subject to regulatory requirements with regard to technology (eg, applicable to technology outsourcing in the financial industry sector), reviewing the target's compliance with such requirements;
- reviewing the target's compliance with privacy and data protection laws, contractual obligations and company policies;
- vetting the extent and ramifications of any privacy or breaches or security incidents; and
- determining whether and what rights to process and use personal data will be available to the buyer.

Although the due diligence process for share deals and carveouts or asset purchases are similar, there are several key differences.

Where a business to be divested is not organised in the form of separate legal entities, the assets, contracts, rights, liabilities, employees and other resources pertaining to the business will have to be carved-out from existing legal entities. As part of such transactions, an additional focus of due diligence is identifying and understanding:

- what is within the scope of the transaction and what is not;
- which resources have to be and can be transferred;
- whether there are any such resources that are in shared use;
- which activities are required to separate the business; and
- which interdependencies exist between the business to be divested and the business to be retained.

Where carveout or asset purchase transactions require the assignment and transfer of IP rights, the buyer should confirm that all desired IP assets may be transferred (and are properly transferred) under applicable law. The buyer should ensure that any shared rights in intellectual property are properly allocated (usually on the basis of concepts of exclusive use or predominant use) and cross-licensed between the parties post-closing in appropriate fields of use.

If source code or data is being transferred, the right of the seller to transfer any third-party code (including open source) or third-party data (including personally identifiable information) should be properly vetted.

With respect to mergers or share acquisitions, the buyer should review material intellectual property, information and communication technology contracts to determine whether they include change of control provisions triggered by the contemplated transaction, whereas for carveouts or asset purchases, the buyer should analyse any anti-assignment provisions triggered by the contemplated transaction. In Germany, where a contract is silent on transferability of the contract as a whole, consent by the third-party counterparty to the transfer is required.

German law also provides for transfer of assets by way of (partial) universal succession in the context of transformations under the German Transformation Act (such as statutory mergers or hive-downs).

It requires a case-by-case analysis whether assignment restrictions or change of control termination rights may have an impact in the context of such transformations.

If a carveout or asset-purchase transaction does not include all employees relevant to the purchased IP assets or business, the buyer should perform sufficient diligence to confirm that there is no 'key person' risk, whether the seller will need to give or receive any (transitional) services, whether any information and communication technology systems or data will need to be migrated or separated, and whether the buyer will be able to use, maintain and exploit the purchased IP assets post-closing.

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?

Counsel for the buyer typically conducts:
- searches of publicly available databases (including the German Patent and Trademark Office and domain name registries) to identify and confirm the status, chain-of-title, expiration date (if applicable), scope of protection and ownership of the registered IP rights purportedly owned by the seller;
- trademark clearance and availability searches may be performed to identify potential third-party trademark rights, or 'freedom to operate' searches may be performed to identify potentially problematic patents;
- searches of websites owned by the target to analyse privacy policies, terms of service and other publicly available information regarding the target; and
- if the target is a public company, searches for public disclosures, such as annual reports.

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?

A copyright is not registrable (but authors of anonymous works can apply for registration in a separate register to extend the duration of protection). All IP rights mentioned in the last paragraph of the answer to question 1 other than copyright are capable of registration.

For IP rights that can be registered and domain names, typically register searches are conducted to assess if the target is the registered owner. Since domain name registrars, in the context of the GDPR, have drastically reduced the scope of information that can be retrieved via 'whois' queries without demonstrating a legitimate interest, domain name searches in these registers may become less important going forward.

For non-registrable IP rights, review of underlying employment, development, contractor or licence agreements is important to determine their scope or the relevant rights to use and licences.

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?

Liens and security interests (including security assignment) can be granted on intellectual property. Liens and security interests in trademarks can be registered in Germany, but there is no obligation to do so.

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

With respect to contractor-created intellectual property, the underlying development or contractor agreements are reviewed for clauses addressing the allocation, transfer and licensing of the IP rights created by the contractor.

The same applies with respect to employee-created intellectual property, it being understood that statutory law in respect of some forms of IP rights provides for legal presumptions or grants of rights regarding employee-created intellectual property. Inventions created or conceived by employees in connection with their employment are subject to a specific regime under which the employee has to notify its employer of the invention. If the employer claims the invention, all title, right and interest is acquired by the employer. The same applies if the employer does not release the invention within a specified period of time. The employee then has the right to claim an appropriate remuneration. As part of customary due diligence, typically the processes and procedures in place at the target are reviewed and any outstanding amounts of employee inventor remuneration or any disputes in connection therewith are sought to be identified.

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?

In general, the terms of a licence agreement govern whether the licence can be transferred or assigned. If the licence is not only a pure right of the licensee, but the licensee also assumes obligations under the licence, transfer of the licence requires a transfer of agreement, which requires the counterparty's consent (which may also be given in advance and is often given in advance to facilitate transfers to affiliates).

Regardless of the above, the transfer of copyright licences in general requires the consent of the copyright owner.

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 generally consists of the following steps (in no particular order):
- What kind of software is involved? Proprietary, self-developed, purchased, open source?
- Who developed the software? Have all rights to the software been allocated or transferred to the target to allow the use of the software for the intended purpose?
- Is the scope and term of the licence appropriate for the intended purpose?
- Do the relevant software agreements contain any termination rights or change-of-control clauses that would enable the respective licensor to terminate the licence?
- For open source software and for software that includes any open source components or libraries, have these parts and the corresponding licence terms been identified accordingly?

Where software is 'a' or 'the' key asset, source code may be scanned by specialised providers for open source components or vulnerabilities within the source code.

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

In due diligence involving artificial intelligence products, the following points may be considered:
- the rights in and to the artificial intelligence (ie, the software itself, and the resources and databases it is based on); and
- the ownership in IP rights for something that the artificial intelligence may be able to create (whereby it is worth noting that current German copyright law and patent law envisages a natural person as an author).

Additionally, depending on the field of use, further specific regulations may have to be observed and compliance may have to be checked.

As regards autonomous driving, unique legal considerations include the liability for decisions taken by the autonomously driving vehicle, in particular in case of death, bodily injury or damage to property caused by such decision.

Big data raises legal issues mainly in respect of data protection and data security compliance, where personal data is part of the big data. Key issues to be considered in this context are:
- Can valid consent of data subjects for processing of their personal data be obtained in a situation where the scope and purpose of the processing is not yet defined when the personal data is collected?
- Do data points, which in themselves do not allow to identify a natural person, become personal data because, when taken together with other data points included in the big data, they allow such identification?

Update and trends

With respect to regulatory approvals required as part of foreign direct investment reviews by the German BMWi (see question 1), a surge in political initiatives for stronger investment control at the German and European level is currently under way.

In Germany, the current market climate is characterised by the BMWi's increased awareness and persistent efforts towards enhanced scrutiny of foreign direct investments in high-tech industries, in particular, in connection with investments from China. The federal government announced in mid 2018 that it is planning to further strengthen German investment control reviews in due course. This is likely to include the lowering of the intervention threshold from 25 to 15 per cent in voting rights or equity for critical industries, largely in the technology sector. The changes are expected to come into force in late 2018.

In September 2017, the European Commission presented the proposal of an EU Regulation establishing a harmonised framework for the review of foreign direct investments into the EU. The proposal, which is expected to be passed ahead of the election of the European Parliament end of May 2019, aims at striking the balance between maintaining the EU's general openness to foreign direct investments and ensuring that the EU's essential interests are not undermined. In any case, the new role of the EU Commission, as well as possibly a new Investment Screening Coordination Group as a second institutional coordination body next to the envisaged foreign direct investment screening contact points, will add another layer of complexity to the investment reviews in Europe.

Implementation of compliance with the GDPR, which is required since 25 May 2018, has been a hot topic and will remain so for the years to come. This is mainly driven by drastically increased statutory fines and enforcement as well as potential group liability comparable to that under EU competition law.

Requirements resulting from the IT Security Act for operators of critical infrastructures also remain a hot topic in technology M&A.

Purchase agreement

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

In share deals, warranties with respect to intellectual property may vary widely in scope and be subject to knowledge and disclosure, but usually contain, at a minimum, the following warranties:

- the target owns (free of liens or rights of third parties) or has a valid right to use the IP rights used in its business, and the schedule listing such IP rights is true, complete and accurate;
- the target is not violating IP rights of third parties;
- contracts under which IP rights are licensed to the target are valid and there are no facts known that may lead to them being or becoming invalid;
- there is proper maintenance of IP rights to ensure that the target's registered IP rights continue to be registered;
- the target's IP assets are sufficient to continue its business after closing as before (this is usually heavily negotiated);
- completion of the transaction does not negatively impact the target's right to use IP rights co-owned or used by the target;
- the use of IP rights is compliant with law or regulatory requirements;
- there are no (exclusive) licence agreements regarding the target's IP rights;
- no licences, premiums or other compensation are paid for the use of IP rights by the target to third parties;
- the target has all the required rights to inventions made by employees and freelancers;
- the target's IP rights have not unlawfully been obtained or used by third parties;
- IP rights owned by the target are valid, in full force and enforceable; and
- the target has implemented and maintained adequate measures to protect its business and trade secrets.

Typical warranties with respect to information technology would generally be shorter and cover:

- title in and to the target's hardware and software;
- functionality of and absence of breakdowns for relevant IT systems; due maintenance (possibly including sufficiency to continue the business as before closing for a certain time period after closing); and that IT systems are sufficiently redundant and safeguarded;
- validity of agreements with third parties in relation to hardware or software (in particular, material or business-critical licensing, outsourcing or maintenance agreements); and
- no disclosure of the company's source code to third parties.

Typical warranties concerning data privacy commonly cover:

- compliance with data protection and privacy laws, contractual obligations, and company policies (usually heavily negotiated);
- the existence of a compliance management system that is able to ensure the fulfilment of these requirements; and
- no data breach or claim of such, resulting in damage, loss of or unlawful access to personal data.

Considering the recent implementation of the GDPR and rising awareness for cybersecurity risks, there is a trend towards such warranties receiving greater attention by the parties involved in a transaction.

In asset deals, the warranties with respect to intellectual property and technology will typically be similar to the ones for share deals with the exclusion of such warranties that relate to a liability of the entity in itself rather than a liability in connection with certain IP assets or contracts. Since, in an asset deal, IP rights need to be individually identified and transferred, the sufficiency warranty (guaranteeing that the sold IP rights are sufficient to operate the business as before closing) may be of particular importance for the acquirer in deals where whole business units (not just single assets) are acquired.

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

Ancillary agreements customary in carveout or asset sales include:

- short form IP assignments that are typically executed for purposes of recording assignments;
- transitional trademark and other IP cross-licences;
- transitional services agreements;
- IT and data migration agreements; and
- agreements for the separation of IT system and sites.

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

Typical IP or tech-related signing or closing conditions include:

- obtaining (confirmatory) invention and IP assignments and confidentiality agreements from former and current employees and independent contractors (if such assignments were not previously obtained, are deficient, or to correct chain-of-title issues or ambiguities);
- third-party consents to change of control or assignment under material IP- or IT-related agreements with third parties or waivers of corresponding rights to terminate;
- amendments to material IP or IT contracts as may be required in order to successfully integrate the target into buyer's business; and
- settlements or releases of outstanding adverse IP claims or actions.

Covenants will typically include specific restrictions on the target's business between signing and closing to prevent a seller, among other things, from disposing material IP assets or entering into material licence agreements outside the ordinary course of business. Covenants may also include specific tasks for the seller, such as remediation measures, carrying out or renewing IP registrations or open source remediation measures by updating or replacing software to ensure compliance with open source licences and to eliminate potential inadvertent grants of open source licences or disclosure of source code to third parties.

Conditions to closing or covenants of the seller that apply to the period after closing may include:

- transitional trademark licences for any retained trademarks and licence or cross-licence agreements for any shared intellectual property; and

- entering into ancillary agreements, including supporting the transition of the business to the buyer's IT systems.

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

In the German market, claims based on ordinary business warranties will typically survive for a period of 12 to 24 months from closing. Tech M&A transactions with material IP and technology assets will occasionally recognise longer limitation periods.

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?

With respect to liability caps, intellectual property, information technology and data privacy warranties will typically be synchronised with other business warranties, subject to few exceptions outside competitive auctions. Caps frequently range from 10 to 30 per cent of the purchase price for slight negligence depending on the target's risk profile and due diligence results obtained by the acquirer. Liability caps are gradually declining owing to the increasing use of warranty and indemnity insurance where acquisition agreements tend to operate with a 'zero liability concept'. Caps also tend to be lower for transactions with a volume of more than €100 million. Against this background, buyers of technology assets, especially from the United States, are pushing increasingly for higher caps specific to intellectual property, and technology warranties where intellectual property and technology constitute the main assets of the target.

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 the German market, IP warranties will typically be subject to the same limitations as other business warranties. The same applies to warranties relative to the target's technology, cybersecurity or data privacy. If and to the extent, there are known IP risks (such as third-party claims or challenges to IP rights, change of control issues), buyers will frequently seek specific indemnities from a seller that do not apply the same type of limitations as applied for warranty breaches (see question 18).

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

Specific indemnities usually cover risks identified through due diligence or disclosure that are not yet quantified and cannot be addressed through warranty claims to the extent they are known to the purchaser. Indemnification will typically be given on a dollar-for-dollar basis (ie, without de minimis thresholds, baskets or deductibles). Depending on the financial exposure associated with the risks that form the basis for the indemnity and the value the parties associate with the respective IP right or other technology asset, the parties will discuss a cap for the liability a seller is prepared to cover. Indemnities will often be associated with the request of the seller to 'hold back' in escrow part of the purchase price to ensure recoverability of the financial risk covered by the indemnity.

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?

It is fairly common that intellectual property, technology and data privacy warranties are given both at signing and closing. Having said this, 'walk away' rights for the buyer for breach of warranties and covenants are still rather uncommon (more frequently raised by US buyers) and, if applied, are usually limited to material warranty and covenant breaches or other material adverse effect type events. A seller will perceive any walk away scenario without clear materiality qualifications as reducing transaction certainty, which makes this a heavily negotiated area for discussion when pushed by a buyer.

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Structuring and legal considerations

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?

Key laws and regulations relevant for technology M&A transactions (including, among others, data protection and privacy rules, intermediary rules and fintech regulations) are:

- the Information Technology Act;
- the Copyright Act;
- the Trade Marks Act;
- the Patents Act;
- the Designs Act; and
- the Payment and Settlement Systems Act.

Additionally, several draft laws and regulations, such as the draft guidelines for online pharmacies, the new draft data protection and privacy law, the draft e-commerce policy (which may impact companies engaged in e-commerce) and the new proposed 'over the top' regulations, will become relevant once they are passed into law and must be considered from a risk assessment perspective in anticipation of this.

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

Yes, the government has the right to acquire inventions or patents for a public purpose. Consideration must be paid to the owner of the invention as may be mutually agreed and failing such mutual agreement as may be determined by the High Court.

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?

Legal title is transferred by an instrument in writing, which must be duly stamped with the appropriate amount of stamp duty. Further, in the case of patents and trademarks, the acquirer must register his or her title by submitting a written application to the authorities. In the case of copyrights and designs, though not mandatory, it is advisable that the assignment is recorded by the acquirer by filing a prescribed form with the authorities.

Additionally, with regard to assignment of copyrights, care must be taken that the term, territory and certain other aspects are recorded in writing, failing which the term is deemed to be only five years, the territory is deemed to be only India and, if the rights assigned are not exercised within one year from the date of assignment, the rights stand lapsed unless the contract provides to the contrary.

Due diligence

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 typical areas with respect to technology and IP assets are:

- determining ownership of the asset to start with (eg, whether the entity that is being acquired, or from which the asset is being acquired, legally created the asset or acquired the asset; or whether assignment agreements with proper clauses have been executed and the stamp duty has been paid);
- determining if there are any third-party components or open source codes forming part of the assets that may impact its complete ownership or use or royalty obligations, etc;
- ascertaining whether there are any infringement claims from third parties with regard to such assets; and
- whether the technology or asset is protected by the grant of a patent and, if not, whether it is likely to infringe any patents.

There is no difference in due diligence as far as technology and IP assets are concerned. However, general due diligence in the case of mergers or share acquisitions involve various other aspects, such as title to the shares and authority for the merger or sale.

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?

Patent and design searches may be conducted for technology assets. In addition, court databases may be searched for verifying if the party or person from whom the technology asset is being acquired is party to any litigation.

A public notice may also be issued out of abundant caution.

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?

Copyrights, patents, trademarks and designs are all registrable. Trade secrets are not registrable but can be protected through non-disclosure agreements. The typical due diligence undertaken is to ascertain:

- if the intellectual property is registered in the name of the seller or if any application for registration has been made by conducting online searches;
- if the intellectual property has been acquired from a third party;
- whether there is an instrument of assignment, with proper assignment clauses and stamp duty paid; and
- whether there are any ongoing disputes with regard to the intellectual property for which searches are conducted in the publicly available databases and court records.

Further, relevant teams and inventors are interviewed to ascertain if they were or remain aware of issues such as open source code, third-party components and prior art searches.

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?

Yes, these can be created. However, there is no specified procedure for creation of a security interest under the intellectual property laws, except for patents and designs. Under the Patents and the Designs Act a specific section is prescribed for recognition of rights of a mortgagee, and that provides that an application must be filed in form 16 and form 12, respectively, with the controller to record rights obtained as a mortgagee. Due diligence to ascertain if any such interests have been created would entail a review of all contracts and agreements, interviews with the bankers and management, and inspection of the register of charges maintained by the registrar of companies, etc.

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

For contractor-created intellectual property and technology, as stated above, it is critical to ascertain whether there is an instrument of assignment, with proper assignment clauses and consideration, and stamp duty paid. As far as employees are concerned, the contract of employment must be verified to ascertain:

- if stamp duty has been paid;
- whether it is truly an employment contract or an independent contractor contract;
- if consideration has been paid; and
- most importantly, whether the contract provides that employee or employer shall be the first owner of the work, etc.

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?

These would depend on the licence available with the licensee and any restrictions thereupon. Exclusive and non-exclusive licences are treated very differently in India, as the name suggests. Non-exclusive licences would not entitle the licensee to any sole rights to use or exploit the technology, whereas exclusive licences would.

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?

Typically, the due diligence undertaken involves interviewing the coders, perusing contracts with the coders and getting third-party specialist teams to ascertain if any third-party or open source code has been used. Target providing code scans is based on mutual agreement and on a case-to-case basis.

Update and trends

There are several emerging trends and hot topics, such as foreign direct investment in e-commerce (based on the new draft e-commerce policy), the new proposed 'over the top' regulations, the new data protection and privacy law to be introduced, and self-censorship issues facing the video-on-demand companies operating in India.

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

These are all new and emerging areas of laws in India, and thus the laws are not yet developed. However, the government is examining these new and emerging areas of law. For example, in the case of drones, the Ministry of Civil Aviation has finalised a national drone policy and permitted civil use of drones from 1 December 2018. Similarly, for artificial intelligence the Ministry of Industry and Commerce set up a task force that issued a report in March 2018.

Purchase agreement

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

Yes, it is customary to include such representations and warranties. For example, the target would be asked to represent and warrant that it is the sole and absolute owner of the intellectual property that is being sold and that such intellectual property does not infringe any third-party rights. Similarly, with regard to data protection, the target would be asked to represent that it is in compliance with all applicable data protection and privacy rules, including those notified under the Information Technology Act of India.

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

These depend on the facts and circumstances of each matter. However, transitional trademark, cross-licensing and transition services agreements are used.

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

Pre-closing conditions relating to intellectual property are typically that there is no material adverse change in the business or finances of the target owing to any intellectual property disputes or third-party claims, and there is no material challenge to any IP rights owned or used by the target by any third party, including any action for revocation of any patent, etc. As far as post-closing covenants are concerned, these would typically provide for liquidated damages for breach, such

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as any misrepresentations, indemnity for any costs incurred and losses suffered.

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

Yes, the periods typically extend at least to the life of the exclusive rights granted by law, which are generally for over a decade in most cases, as compared to the standard representations and warranties, which are generally limited to much shorter periods.

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?

This depends on the facts and circumstances of each case. However, generally, the caps are higher. The caps could be a significant percentage of the purchase price or even the full purchase price if the target has no other significant assets other than the intellectual property.

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?

This depends on the facts and circumstances of each case. Generally, liability for breach of IP representations are not taken lightly.

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

Yes. The indemnities would require the seller to indemnify and hold harmless the acquirer from all costs charges including reasonable fees of attorneys, expenses and losses that arise as a direct or indirect result of the breach of any of the terms and conditions of the acquisition agreement, including any misrepresentations by the seller.

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?

The IP representations and warranties are generally required to be true in all respects. However, the walk right, depending on the bargaining position of the parties and their risk appetite, would be negotiated to the misrepresentation having caused or likely to cause a material adverse effect on the target as may be determined by the purchaser.

Mexico

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Structuring and legal considerations

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?

M&A transactions in Mexico are mainly regulated under the following laws and regulations:

- the Negotiable Instruments and Credit Transactions Law;
- the Mexican Corporations Law;
- the Foreign Investment Law;
- the Code of Commerce;
- the Federal Civil Code;
- the Securities Market Law;
- the Federal Antitrust Law; and
- the Federal Labour Law.

With respect to technology M&A transactions, in addition to the foregoing, the Industrial Property Law, the Federal Copyright Law, the Federal Law for the Protection of Personal Data and the Federal Vegetable Varieties Law (as pertains to biotechnologies), among others, may apply, as well as several international agreements to which Mexico is a party, including the North American Free Trade Agreement, the Mexico–EU Free Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (which includes robust protections to digital assets and term lengths). Mexico is also a member of the World Intellectual Property Organization.

The main governmental authorities that overview intellectual property laws in Mexico are the following:

- the Office of the Attorney General;
- the Mexican Institute of Industrial Property (IMPI);
- the National Institute of Copyright (Indautor); and
- the Federal Commission for the Prevention of Sanitary Risks.

The IMPI and Indautor are the offices that oversee patent and technology registrations, including any assignments thereof.

The Federal Antitrust Commission is a relevant authority to any M&A transaction related to Mexican corporations or Mexican assets; however, if the transaction involves the telecommunications sector, the competition authority is the Federal Telecommunications Institute. According to Mexican competition law, any act of merger, acquisition of control or other act taking place between competitors, suppliers, clients or other economic agents and by virtue of which corporations, associations, shares, quotas, trusts or assets in general are concentrated requires a notice to be filed in writing before the relevant authority before such transaction taking place, and subject to the requirements and thresholds set forth in the law.

Thresholds apply when the act (or succession of acts) represent the equivalent of approximately US$72.5 million; imply the accumulation of 35 per cent or more of the assets or shares of an economic agent, whose annual assets in Mexico or annual sales originated in Mexico represent more than the equivalent of approximately US$72.5 million; or imply the accumulation in Mexico of assets or corporate capital in excess of the equivalent of approximately US$33.8 million and two or more agents who take part in the transaction have assets or annual sales that, jointly or individually, represent more than the equivalent of approximately US$193.4 million.

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

Regulations in Mexico do not set forth any specific march-in or step-in rights with respect to technology or intellectual property; however, the Mexican Constitution recognises the Mexican government's right to expropriate private property when such seizure is in the benefit of the general public and subject to the applicable procedures provided by law. Such expropriation may include technology and IP rights. The Constitution dictates that the government must provide fair compensation (based on the fiscal value of the property) for the seized property.

There also exists a concept of 'mandatory licences', in which case, whenever a registered patent has not been commercially exploited for the past three years, any person (individual or corporation) may request the IMPI to grant a mandatory licence for the use of such patent.

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?

In Mexico, intellectual property that is registered as a patent is typically transferred through a written assignment, duly registered with the IMPI.

Software and other technology assets are registered as copyrights, and therefore incorporate two types of rights: moral rights, which protect the authorship and the integrity of the work and are not transferable, since they are permanently attached to the author; and economic rights, which grant the author the right to commercially exploit the asset and the right to transfer or license such rights to a third party. Economic copyrights are transferred through a written assignment, and registered with Indautor. Each transfer must be made for a limited term (a maximum term of 15 years) and, if the assignment agreement does not establish a certain term, the Federal Copyright Law provides that the term of the transfer will be five years. The law establishes an exception for literary and software economic rights, where the term may be indefinite as long as the assignment agreement is duly registered before Indautor.

Recently, technology transfer agreements known as 'know-how agreements' have started to appear in Mexico, whereby the legal title of patents or industrial secrets, not registered before a Mexican authority, are being transferred. Such agreements also include the obligation of the transferor to train and consult the transferee on the correct use of the applicable asset during a period of time. Such agreements do not need to be registered before the IMPI.

Due diligence

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?

In a share acquisition or merger dealing with technology and IP assets, the due diligence that is undertaken typically includes the review of:

- corporate documentation (deed of incorporation, by-laws and amendments thereto, powers-of-attorney, corporate books and

Update and trends

The Federal Antitrust Commission has been particularly active in the enforcement of its authority during the past year, performing several investigations and imposing fines (which, in several cases have been substantial). Antitrust review is now an important part of any M&A transaction in Mexico and an intelligent approach with the agencies has become more and more important.

Additionally, as more technology transactions take place, the regulation of technology and technology assets will play a more important role and create a more sophisticated market. In recent transactions, data breach security and cybersecurity attacks have become part of the due diligence process and are starting to influence the representations and warranties applicable to these type of transactions, as well as the indemnities required by buyers.

registries, current distribution of capital stock of the target and subsidiaries, among others);
- a list of licence agreements for the use of patents, trademarks and trade-names, either licensed by or to the target and subsidiaries;
- licences and ownership documents regarding the relevant technology and IP rights;
- a list of technical assistance, services and know-how agreements, either licensed by or to the target and its subsidiaries;
- a list of trademarks, patents and commercial denominations registered before the IMPI on behalf of the target and subsidiaries or applications thereof and current status;
- copies of all standard contracts used by the target or subsidiaries (or any agent or distributor of any of them) to grant licences and which involve payments to the target or subsidiaries on other than a one-time, flat fee basis (ie, contracts that involve payments of a per customer or percentage of revenue or usage-based fee);
- review of relevant foreign investment registries; and
- mergers, acquisitions, consolidations or joint venture agreements, including agreements relating to any sale of assets or business in the last five years, among others.

In an asset purchase dealing with technology and IP assets, due diligence will be focused on the ownership and maintenance of the asset, including any payments of fees, royalties or annuities regarding the relevant patent or technology, all liens, charges or attachments, along with all contracts, agreements, indentures or instruments related to the relevant assets.

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?

Public searches and available public information regarding patents in Mexico is done through the IMPI website (www.gob.mx/impi), including patent applications, granted patents, granted utility models and granted designs. Also, the search engine SIGA (siga.impi.gob.mx) may be used for searches regarding publications in the Official Gazette related to intellectual property. Some of the relevant results may include granted patents, administrative proceedings, writs and related payment documents.

Regarding copyrights, searches may be conducted through MARCANET (marcanet.impi.gob.mx) where any copyrights, trademarks, commercial names, among other information, is available to the public. Notwithstanding the foregoing, an on-site search at the offices of the IMPI and Indautor is advisable to gather the most recent information.

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?

The following types of intellectual property are registrable under Mexican law:
- Industrial property or patents: this type of intellectual property includes any invention with inventive technical features, as long as it has an industrial application and novel characteristics and includes utility models, design rights and industrial designs. The following may not be registered as industrial property assets: plant varieties, the human body or any living matter regarding human bodies, any animal breeds, all biological or genetic material existing in nature and biological processes for obtaining and reproducing plants and animals.
- Copyrights: computer programs, radio and television, music, cinematographic, artistic or literary works and any compilation works (including big data), among others.
- Trademarks: word marks, design marks, combined marks, three-dimensional marks, advertising slogans and trade names. Slogans and trade names are not registered, but published for the purpose of establishing a presumption on their adoption and use in good faith.
- Appellations of origin: these may only be registered on the Mexican government's behalf and include any geographical region of Mexico that creates a special designation for a product originating from it.
- Layout design for integrated circuits: electronical arrangements designed for an electronic device.

Reservation of rights are not registrable assets; however, the Mexican government provides a protection to such rights by securing a reservation of rights certificate before Indautor. These rights include: names of serial publications whether printed or electronic, names of shows broadcast on television, radio or the internet, original characteristics (physical and psychological) of characters, artistic names and original advertisement mechanisms.

Trade secrets and confidential information are not registrable; however, Mexican regulation recognises the right to protect confidential information, such as through the use of non-disclosure agreements or other similar arrangements. Confidential information may be construed as industrial secrets whenever such information is used in the manufacturing method or distribution process of products or services or whenever non-obvious information is used by a technical expert to achieve competitive or economic advantage. Industrial secrets are protected under Mexican law, and therefore the non-authorised use of industrial secrets may be punishable through the imposition of fines or the payment of damages.

See questions 4 and 5 regarding the due diligence typically undertaken with respect to the foregoing.

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?

Liens and security interests may be granted on a patent through a non-possessory pledge agreement, which shall be formalised in writing and registered before the IMPI to be enforceable against third parties and to establish a right of pre-emption for the secured party. In the case of copyrights, moral or economic rights may not be directly subject to liens or security interest; however, an indirect lien may be obtained by granting a security interest over the proceeds of the commercial exploitation of the economic rights. Such security interest may be granted through a pledge agreement or a guarantee trust agreement.

The enforcement of such security interests requires a formal resolution dictated by a competent Mexican court, except for the case of a guarantee trust agreement, where in addition to the foregoing an out-of-court expedited process may be agreed by the parties.

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

According to federal labour law, employers own any industrial property rights to all inventions developed by their employees as long as the invention is within the scope of their employment, and the main purpose of the employment is the development of such invention. Regarding copyrights, the moral rights are owned by the employee but the economic rights must be divided equally between the employee and the employer, unless the employment contract already determines otherwise. The same applies to contractor inventions and copyright works.

Because of these rules, the due diligence process regarding employee-created and contractor-created intellectual property and technology involves the review of:
- a sample of the target's different types of employment agreements, including definite term or specific job agreements, as well as independent professional services agreements;

- the benefits granted to the employees, either mandatory or at the target's or subsidiaries' discretion, indicating granting criteria, costs for the target, subsidiaries and employees, discount form, including any differentiated benefits granted to executives;
- contracts with human resources providers;
- termination policies and corresponding payments;
- labour lawsuits or contingencies and their current status, settlement agreements, arbitration awards, judgments, resolutions or orders in employment matters; and
- any labour unions documentation, among others.

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?

Except by the requirements mentioned in question 3 above, no additional requirements exist for the transfer or assignment of licensed intellectual property and technology.

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?

Generally, software due diligence is undertaken following the same principles as with any other M&A or asset purchase due diligence (see question 4). Note, however, that the specific transaction and asset particulars may require additional documentation and processes that should be reviewed by the buyer. In some cases the provision of code scans or open source code may be required from the target; if this is the case, an applicable non-disclosure agreement or confidentiality agreement may be warranted.

Additionally, owing to new competition criteria adopted by the Federal Antitrust Commission, when two or more competitors, suppliers, clients or economic agents are involved in a merger, acquisition of control or other similar transaction, and such transaction requires sharing relevant strategic information (such as, inter alia, software and codes), the recipient of such information should not be involved in the strategic decision-making of the company that such recipient represents and should be shared through a third party or a 'clean team'.

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

M&A transactions in Mexico involving special or emerging technologies, such as artificial intelligence, internet of things and big data, are still relatively new and, therefore, a specific market practice has not been established yet, although general principles and market standards will continue to apply as a general matter. However, purchasers in the transaction will rely heavily on the representations and warranties provided by the sellers and, therefore, drafting of the representations and warranties, as well as potential indemnities to cover breaches or inaccuracies regarding same, will be an important part of the negotiation in the transaction.

Purchase agreement

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

Yes. Market practice in Mexico generally includes representations and warranties for intellectual property, technology, cybersecurity and data privacy in technology M&A transactions. Such representations and warranties will require the seller or the target, as the case may be, to represent that:

- it is the sole and exclusive owner of the applicable asset;
- the asset is not limited or subject to any encumbrances, any pending or threatened legal proceedings (including those challenging its IP rights);
- all due diligence documentation provided to the buyer was true at the time of review and continues to be true as of the closing date;
- all employees, contractors or third parties have assigned their rights to any intellectual property (including any rights of first refusal); and
- all IP rights are duly registered and such registries have been properly maintained, including payment of any applicable fees, among others.

It is important to also include confidentiality, governing law and jurisdiction, human resources and non-compete clauses in all carveout or asset sale agreements regarding technology or IP assets.

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

The following agreements may be present in a carveout or asset sale regarding technology or IP assets:

- Transition services agreements: whereby the seller agrees to provide the buyer with the necessary infrastructure support for a certain period of time after the applicable transaction takes place. These agreements may include provisions dealing with other non-IP- or technology-related transitional services.
- Transitional trademark licence agreement: this agreement may be used when the buyer will not obtain long-term rights to one or more of the seller's trademarks after the transaction closes; therefore,

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effective as of the closing date, the seller grants the buyer (and its affiliates) for a certain period of time a royalty-free, non-exclusive irrevocable licence to use in connection with the acquired business or transaction.

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

Buyers will typically require tech-related pre- or post-closing conditions or covenants depending on the findings arising from the due diligence review and the disclosure schedules provided by the seller, as well as the negotiation of the transaction. Fundamental representations and warranties, such as ownership of the applicable assets, may trigger additional covenants, for example, correction of chain of title, IMPI registrations and other remediation activities.

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

Fundamental representations and warranties, such as ownership, registration and maintenance of the applicable asset are generally subject to indefinite survival periods. Other non-fundamental representations and warranties may be subject to survival periods of up to 24 months or the applicable statute of limitations.

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?

Breaches of fundamental representations and warranties related to intellectual property (eg, ownership, absence of liens and encumbrances, and others) in these types of transactions will not be typically subject to a cap. Other non-fundamental representations may be subject to the cap in place for breach of all other representations, which typically will be a percentage of the purchase price. These representations would also be subject to the general de minimis thresholds, baskets or deductibles usually found in M&A transactions.

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?

See question 16.

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

As a general rule, specific indemnities related to intellectual property, data security or privacy matters are not customarily found in definitive agreements for M&A transactions in Mexico. However, depending on the particularities of the transaction, as well as the due diligence findings, inclusion of specific indemnities may be warranted. We believe that, as the market continues to develop and M&A transactions dealing specifically with technology assets continue to rise, new standards of indemnities may become applicable as market practice.

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?

Generally, buyers will push for fundamental representations and warranties related to intellectual property to be true in all respects at closing, without regard to any materiality qualifier that may have been included in the relevant representation.

Netherlands

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Structuring and legal considerations

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?

In the Netherlands, mergers and acquisitions are transacted mainly under Books 2, 3, 5, 6 and 7 of the Dutch Civil Code (DCC). Additionally, more so than in certain other jurisdictions, the interests of employees play an important role in Dutch mergers and acquisitions; this is particularly the case for technology transactions in any shape or form. Dutch companies with more than 50 employees typically have a (central) works council, whose advice must be sought in the context of a transaction. Moreover, the works council has additional powers in relation to a company's strategic decision-making process. These powers of the works council and trade unions are transcribed in the Dutch Works Council Act and Social Economic Council's Merger Code 2015 (SER 2015). Generally speaking, the completion of an employee representation body consultation procedure is included in the purchase agreement as a signing or closing condition. Finally, all M&A transactions are subject to Dutch or European competition rules and regulations, as will be discussed in more detail below.

For technology M&A transactions, the following additional legislation – encompassing intellectual property law as well as information technology and privacy law – is of particular relevance:

- the Copyright Act;
- the Neighbouring Rights Act;
- the Databases (Legal Protection) Act;
- the Patents Act 1995;
- the Community Plant Breeders' Right Regulation (2100/94/EC);
- the Directive on the Transfer of Undertaking (2001/23/EC);
- the Assessment of Employment Relationships (Deregulation) Act;
- the Telecommunications Act;
- the General Data Protection Regulation (GDPR);
- the Benelux Convention on Intellectual Property (BCIP);
- the Copyright Directive (2001/29/EG);
- the Union Trade Mark Regulation;
- the Trade Secret Act, which has not yet entered into force and is currently being reviewed by the Senate;
- the Community Designs Regulation;
- the Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (the Software Directive);
- the Neighbouring Rights Act;
- the Legal Protection of Original Topographies of Semiconductor Products Act;
- the Trade Names Act; and
- the Seeds and Planting Materials Act 2005.

In general, no governmental approvals are required to effect a transaction. However, as previous touched upon, all transactions are subject to Dutch or European competition laws. As a result, if a transaction exceeds or is likely to exceed certain turnover thresholds – as defined in the Dutch Competition Act or EC Merger Regulation (39/2004/EG) – parties must obtain clearance from the Netherlands Authority for Consumers and Markets or the European Commission, or the relevant authorities in certain other member states, or third countries, as the case may be.

Moreover, if a company is active in a specific regulated industry, such as the financial sector, the healthcare industry or the IT or telecommunications sector, specific licences or approvals might be required.

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

Under current Dutch and European law, no general technology-related governmental march-in or step-in rights exist. Traditionally, EU policies have been directed towards encouraging mergers and foreign investments. This is illustrated by the Treaty on the Functioning of the European Union, which not only abolishes transfer restrictions on capital and payments between member states, but also between member states and third countries. Moreover, unlike the United States or Australia, the European Union does not have an institution in place to screen incoming foreign investments or to prevent a merger on account of the nationality of the acquirer.

However, in recent years, the European Union has taken a step back from its traditional liberal policy towards mergers and foreign investments. In light of recent controversies pertaining to privacy and security and an increased interest of foreign investors in companies that are crucial to the Dutch and European technology infrastructure, a trend is visible aimed at protecting 'vital technology'. To date, 12 out of the 28 member states have implemented measures for the screening of foreign investments. Moreover, at the European level, the European Commission has recently published a draft regulation creating a framework for the screening of foreign direct investments at the level of the members states as well as a pan-European screening mechanism for foreign investments that threaten EU interests. Finally, closer to home, the Dutch Minister of Economic Affairs took a first step towards protecting technology companies in the telecommunications sector by drafting a bill that gives the Minister of Economic Affairs the right to prevent a new shareholder from acquiring or maintaining a controlling interest in a 'telecommunications party' if the acquisition threatens public policy. To date, this bill has not entered into force and is pending review by the Dutch Council of State.

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?

In technology M&A transactions, the most important IP rights are patents, trademarks, copyrights, design or model rights and database rights.

Patents may be granted for technological inventions that are new, the result of an inventive step and are capable of industrial application. A patent gives the owner an exclusive right to forbid third parties from using the invention for commercial purposes. Provided that the requirements are met, a patent is established by registration of the invention in the applicable Dutch or European patent register. The scope of protection is 20 years.

A trademark can be any sign capable of graphic representation which has a distinguishing characteristic (eg, not descriptive). Provided that the requirements are met, a trademark is established by registration of the sign in the applicable Benelux, European or international trademark register. The scope of protection is 10 years, but can be extended perpetually.

Works of literature, arts and science (including software) are protected by copyright law. A copyright grants the creator the exclusive right to publish, copy or multiply the work. A product qualifies as a 'work' when it is a personal intellectual creation and bears a personal mark of the creator (as a result of creative choices). Provided these requirements are met, a copyright is established automatically. Registration is not required; there is no copyright register in the Netherlands. The duration of the protection is 70 years after the death of the creator.

A design or model right protects the external appearance of two- or three-dimensional objects. An object qualifies as a design or model when it is new and has an own character. Design or model rights are established by registration in the applicable Benelux, European or international register. Registration gives the owner the exclusive right to use the design or model. The scope of protection is five years, to be extended every five years up to a maximum of 25 years. Unregistered designs or models can be protected by a design or model right as well, but the scope of protection is limited and the duration of protection is three years.

Databases, as well as the information contained in the databases, are protected by copyrights and database rights, respectively. Database rights are automatically granted to the producer upon creation of the applicable database. There is no register. A database is a collection of works or data that is methodically structured and shows a substantial investment. It gives the owner the exclusive right to request or reuse (parts of) the databank. The scope of protection is 15 years.

To effect a transfer of the above-mentioned IP rights, an authentic or private deed of transfer is required that contains all conditions and reservations to the transfer. If a patent, trademark or design or model right is transferred, it does not bind third parties until the transfer instrument has been registered in the appropriate register.

Although it does not technically qualify as an IP right, domain names can be protected through registration with the Foundation for Internet Domain Registration. Once registered, the owner has a contractual right to exclusively use a particular IP address. The transfer of a domain name requires a deed and a subsequent notification of the Foundation for Internet Domain Registration.

Finally, trade secrets and know-how – that do not formally qualify as IP rights under Dutch law – can be protected by contractual measures. Information qualifies as a trade secret if it is secret, has value and proper measures have been taken to uphold its confidential nature. Under the new Trade Secret Act the owner of a trade secret can prohibit others from obtaining, using or publishing a trade secret. In some cases, the owner even has the right to demand a recall or order the destruction of the products made using the trade secret.

Due diligence

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?

In the Netherlands, due diligence in technology transactions typically focuses on:

- title to shares (if a share deal);
- IP rights owned by the company (trade names, design or model rights, copyrights, neighbouring rights, trademarks, patents, databases, plant breeders' right, chip rights, often including domain names, know-how or trade secrets; although these last three do not officially qualify as such);
- agreements involving the company's use of third-party IP rights, know-how, or use of IP rights or company know-how (eg, licence agreements and transfer deeds);
- possible infringements of third-party intellectual property and vice versa;
- historic and pending litigation involving IP rights or know-how;
- security interests and encumbrances established on or prejudgment or executory seizure of IP rights or company know-how;
- agreements related to the website maintained by the company;
- agreements involving compliance with, or documents evidencing compliance with, statutory privacy provisions;
- privacy statements or policies; and
- documentation relating to (adequate) procedures to prevent unauthorised access and the introduction of viruses, worms, Trojan horses, spyware or other disruptive elements into the information technology.

In a share deal, merger or demerger, all company assets and liabilities are automatically transferred, following the execution of the notarial deed of transfer of shares or execution of the notarial deed of merger or demerger. Therefore, in a share deal, there will be particular emphasis on title to share as well as the review of key agreements in order to confirm the extent to which change of control clauses are triggered.

By contrast, in an asset deal or carveout (assuming pre-closing restructuring is involved), all assets and liabilities must be separately transferred, taking into account all applicable transfer requirements. As a result, the due diligence investigations conducted in a share deal differ from the investigations conducted in an asset deal in the sense that there is an increased focus on the individual assets concerned. Moreover, depending on the type of assets being transferred and the identity of the buyer, conducting a 'Transfer of Undertakings' (Protection of Employment) Regulations 2006 analysis is paramount. Due diligence must establish whether a transfer of undertaking has taken place, by which certain employees are automatically transferred from the seller to the buyer irrespective of the 'scope' of the assets and liabilities that are transferred by virtue of the asset purchase agreement.

Finally, in recent years, an increasingly popular phenomenon in technology transactions has been the 'acqui-hire', by which companies acquire the company's assets or shares for the sole purposes of hiring its key software engineers. Once the new people are onboard, the acquired business is liquidated. In an acqui-hire, part of the due-diligence research should be a thorough assessment of the engineers and their terms of employment, as well as their values, work habits and priorities.

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?

Generally, a buyer and its (legal) advisers will review the information included in the trade register of the Dutch Chamber of Commerce. This register contains information on the target's registered name and address, its directors, annual accounts and other filings, such as past mergers or demergers. Moreover, before the wire transfer of the purchase price to the seller upon completion of the transaction, the central insolvency register is checked to confirm that neither the target company nor its subsidiaries have been declared bankrupt.

In a technology M&A due diligence, it is customary to consult additional registers to confirm, among other things, that all IP rights are owned by the target and to establish what, if any, registered licences are issued. Trademarks and design or model rights – depending on their scope – are registered with the Benelux Office for Intellectual Property, the European Union Intellectual Property Office or the World Intellectual Property Organization, respectively. Each organisation maintains its own register. Patents – depending on their scope – are registered in the Dutch Patent Register or European Patent Register. Finally, domain names – which do not technically qualify as IP rights, but may qualify as trade names – are registered with the Foundation for Internet Domain Registration. Copyrights are created by operation of law and are, therefore, not registered in the Netherlands. Therefore, we require an overview of all IP rights and copies of all relevant licence agreements, to verify whether all relevant intellectual property is owned or validly licensed by the target.

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 Netherlands the following types of intellectual property are registrable: trademarks, design or model rights, patents, plant breeder's right and domain names. Due diligence typically consists of a review of the registers. See question 5.

Other IP rights, such as copyrights, database rights, trade names and trade secrets are not registrable under Dutch law. These rights arise by operation of law or first usage. For due diligence purposes, it is important to review all relevant agreements and other documentation held by the target related to these rights. See question 5.

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 Dutch law, there is no single legal equivalent to a lien. A lien can refer to an array of Dutch security interests. In practice, the most common security interest vested in respect of IP rights or technology assets is a pledge. Under Dutch law, IP rights can be encumbered by a pledge, provided that the relevant intellectual property law states that the IP right is transferable. This is the case for copyrights, trademarks, design or model rights, patents and plant breeders' rights. The requirements for the creation of a pledge differ per IP right; however, in most cases, a pledge is established through an authentic or private deed. To the extent that the IP rights are registered, the pledge is recorded in the applicable register.

Moreover, most technology assets – such as hardware – can be encumbered by a right of pledge, provided that these assets qualify as movable assets. A pledge is created by an authentic or registered private deed. In these instances, due diligence typically consists of reviewing the relevant deeds and underlying contracts containing the obligation to create a pledge. Depending on the nature and motives for the transaction, seller, buyer and creditor can decide to settle all outstanding debts prior to closing or, alternatively, agree that the acquirer will take over (part of) the existing debt after closing. In the first case, the pledge will terminate by operation of law prior to closing. In the second case, the creditor will enter into new (finance) agreements with the acquirer upon closing, waive its existing pledge prior to closing and establish a new pledge post-closing. If a pledgor (debtor) fails to comply with its obligations under the finance agreement, the pledgee (creditor) can dispose of the IP rights as if he or she were the owner.

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

Establishing ownership of IP rights, created by employees or independent contractors, is particularly relevant when copyright protected works are involved – as these are not formally registered or recorded. According to the Dutch Copyright Act, copyrights vest in the creator by operation of law. However, if the creator is an employee, the Dutch Copyright Act dictates that all copyrights created by an employee vest in the employer, provided that these activities fall within the employee's job description. To avoid confusion and prevent copyrights from automatically vesting with the employee, an IP clause is often included in employment agreements. The same rules do not apply if the person creating the intellectual property qualifies as a contractor rather than an employee. All copyrights created by a contractor automatically vest in contractor as creator. To avoid having to seek the permission of the contractor each time the copyright protected works are used, companies will typically include an IP clause in their agreements. This clause compels contractors to transfer all copyrights created throughout the course of the assignment to the company.

Unfortunately, the distinction between employees and independent contractors is not always clean-cut. Even if an agreement is not formally labelled as an employment agreement, it can qualify as an employment agreement if it satisfies the statutory requirements. Earlier this year, a Dutch lower court clarified the nature of the relationship between online platform companies and their workforce. The court ruled that the relationship between food-delivery company Deliveroo and its deliverers should qualify as an assignment agreement rather than an employment agreement. This decision may serve as a precedent for other online platforms with similar hiring constructions.

In light of these rules and case law, due diligence related to employee- and contractor-created intellectual property typically focuses on standard and personalised employment agreements; freelance agreements and (standard) management agreements; agreements involving hiring out and hiring in employees; and proceedings, pending proceedings or other employment-related disputes. If relevant, due diligence should also focus on employees who contributed to patentable inventions, as they may hold certain rights or be entitled to compensation. Finally, if trade secrets are considered valuable company assets, due diligence should also focus on confidentiality and secrecy undertakings with employees and contractors. Under the new Trade Secret Act, if a company does not have adequate non-disclosure agreements in place, this may prevent know-how from qualifying as a trade secret. If due diligence investigations reveal that the agreements with employees or contractors do not sufficiently protect intellectual property, IP rights must be transferred to the target prior to completion by means of a separate deed of transfer.

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?

A licence can be granted for all IP rights. A licence is, in essence, an agreement between the owner of the IP rights (licensor) and a third party (licensee), by which the licensor authorises the licensee to use its IP rights. A licence can be limited in, among others, time, scope, territory, type of IP right, exclusivity, sublicences, transferability, royalties, types of goods or services, and duration. Apart from the requirement that consent must be reached between licensor and licensee, no formal requirements exist for the establishment of a licence under Dutch law (except for an exclusive copyright licence that should be done by deed). However, a patent, design or model right or trademark licence does not bind third parties until the licence is registered in the relevant register. In practice, a licence is usually embedded in a written agreement in order to avoid discussions at a later stage. Generally speaking, licence agreements can be transferred. Parties can include a provision in the licence agreement, dictating that the licence cannot be transferred (ie, exclude the right to transfer). Considering that the legal implications of a clause of this nature can be particularly burdensome, this should always be verified during due diligence.

Debate exists on whether the new owner of the IP rights is bound by a pre-existing licence after transfer. The prevailing opinion is that the new owner must respect the licence, provided that the new owner knows or should be aware that a licence agreement exists (eg, by consulting the appropriate register). Considering that not all IP rights are registered in the Netherlands, an essential part of the due diligence investigation is to find out whether the company has entered into licence agreements with third parties.

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?

In the Netherlands, due diligence typically focuses on the review of:

- agreements relating to the sale, purchase, licensing or licence granting of software;
- agreements relating to IT services;
- agreements relating to technology in escrow and technology escrow for hardware and software;
- reseller, distribution and strategic alliance agreements with other IT suppliers;
- letters of intent with suppliers and customers related to IT;
- general terms and conditions governing the sale or purchase of IT (hardware, software or IT-related services); and
- assignment agreements related to rights on hardware or software offered or delivered to customers (ie, IP transfer deeds).

See question 8 for the due diligence typically conducted if employees or independent contractors are involved in the development of software.

As part of this due diligence, the target company usually provides information on whether the software used is licensed through third parties or open source. However, since lawyers (in general) are not qualified to comment on the quality of software, we explicitly exclude this from the scope of our due diligence. If the nature of the transaction requires in-depth software due diligence we advise clients to involve third-party experts.

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

In general, most of the aforementioned considerations apply equally to special or emerging technologies, with privacy compliance being a major focus point. Further, depending on the nature of the transaction, specific regulatory requirements may apply, which will constitute part of the due diligence investigation.

Update and trends

In the Netherlands, and throughout the European Union, a trend is emerging, aimed at protecting 'vital technology'. In early 2017, the Dutch Minister of Economic Affairs took a first step towards protecting technology companies in the telecommunications sector by drafting a bill that would allow the Minister to prevent an acquisition of a 'telecommunication party' that threatens national security or public order. This bill is currently being reviewed by the Dutch Council of State. Moreover, in the autumn of 2017 the European Commission published a regulation aimed at establishing a framework for the screening of foreign investments in the European Union. One of the main pillars of the regulation was to create a European screening mechanism on the grounds of security or public policy for those cases in which foreign direct investments in member states could potentially affect EU projects, programmes or interests. These proposals reflect the current political sentiment throughout the European Union aimed at barring unwanted foreign investors from entering vital technology companies.

Purchase agreement

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

In technology M&A transactions, representations and warranties for intellectual property, information technology and privacy are commonplace.

For intellectual property, these warranties and representations are typically aimed at ensuring that the company or group (target) holds full, unencumbered, title (ownership) to all vital intellectual property, that no infringements have occurred or are anticipated to occur related to the company's and third parties' IP rights, that relevant non-disclosure agreements are in place, no trade secrets or know-how have been shared outside the ordinary course of business and that proper measures have been taken to keep these trade secrets or know-how secret.

For information technology, the warranties are aimed at ensuring that the company holds full and unencumbered title to all vital information technology, has sufficient backup, disaster recovery and security plans and procedures in place, has not been subject to any major failures or breakdowns, and has not planned any major IT investments immediately after closing. Finally, privacy-related representations and warranties usually require the seller to declare that the target has complied with and continues to comply with all applicable privacy laws, such as the GDPR and the Telecommunications Act.

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

In the Netherlands, the following ancillary agreements are typically seen in carveout technology M&A transactions:

- transition services agreements;
- (limited) licensing agreements;
- cross-licence or (confirmatory) IP transfer agreements or deeds of assignment;
- contract transfer agreements;
- distribution agreements; and
- IP co-existence agreements.

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

Depending on the background of the transaction, the outcome of the due diligence investigations and the level of intertwinement of the companies involved, several pre- and post-closing conditions can be agreed upon. In practice, the following pre- and post-closing conditions are often included in purchase agreements:

- the obligation to transfer all IP rights to the relevant group companies prior to closing or obtain relevant licences,
- the obligation to enter into any of the agreements mentioned in question 13 before or after closing,
- a correction of chain title for intellectual property,
- the obligation to obtain a waiver from third parties prior to closing in the event a (material) agreement contains a change-of-control provision; and
- the obligation to implement measures aimed at full compliance with the applicable data protection or consumer protection laws.

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

In transactions, a distinction is typically made between fundamental warranties (ie, title to shares or assets, organisation and standing and capital structure) and business warranties. As a rule of thumb, fundamental warranties have a significantly longer survival period than business warranties. In Dutch M&A transactions, where intellectual property plays a vital role, IP warranties are typically elevated from the status of business warranty to the status of fundamental warranty, and are, therefore, subject to longer survival periods. Fundamental warranties are typically subject to a survival period of at least five years (but usually longer) while, for business warranties, the survival period is typically somewhere between 12 and 36 months.

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?

In general, the cap on fundamental warranties is often 100 per cent of the purchase price. The cap on business warranties is usually anywhere between 10 and 50 per cent of the purchase price, depending on the risk appetite and the bargaining power of the parties involved.

As stated in question 15, if intellectual property plays a crucial role in a transaction, the corresponding warranties are usually labelled as fundamental warranties. As a result, the cap is higher than for business warranties. In practice, it is not uncommon for there to be a separate basket for IP representations and warranties with a separate cap, which is then often on the higher side of the business warranties' cap. If so agreed, the remaining business warranties are then often subject to a lower cap. If and to the extent risks were identified during the due diligence investigation, which cannot easily be quantified and for which pre- or post-closing conditions are no viable alternative, a seller is typically requested to provide specific indemnities. These specific indemnities are usually not subject to the time and monetary limitations that apply to claims for breach of representations and warranties, save for the overall cap and no accumulation.

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?

Generally speaking, liabilities for breach of IP representations and warranties are not carved out from the applicable limitations to recovery. However, depending on the nature of the transaction and the importance attributed to the intellectual property, this can differ. Business warranties are subject to time and monetary limitations, as well as subject to or qualified by disclosure. These limitations often do not fully apply to the fundamental warranties. Therefore, in the event that IP representations and warranties are elevated to the status of fundamental warranties, sellers are required to accept only limited carveouts.

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

In the Netherlands, technology-related indemnities are included in the final transaction documentation if the due diligence investigation or a subsequent disclosure reveals a specific risk that cannot be easily quantified or resolved through the pre- or post-closing route. Indemnities that are often included are indemnities against any claims from third parties arising out of or related to (the infringement of) their IP rights or the use of corresponding licences; and indemnities concerning the lack of ownership of or title by the target to IP rights, for instance, when different jurisdictions are involved and a transfer of title cannot be established with certainty.

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?

It is important to note that unlike certain other (common law) jurisdictions, Dutch transactions do usually not contain a bring-down condition. Representations and warranties (especially the fundamentals) are often repeated at closing, but a breach of warranty does not entitle a buyer to put the transaction on hold or walk away altogether, but rather grants the buyer the right to subsequently claim damages.

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Structuring and legal considerations

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?

Technology M&A transactions in Peru have been growing steadily in the past few years. However, the number, complexity and ticket size of such transactions are still low in comparison to similar deals closed in some Latin American countries, such as Brazil, Mexico and Chile.

Most recent technology transactions in Peru may be grouped in one of the following categories: local closing of foreign agreed transactions; acquisition of local businesses by foreign technology companies to gain faster access to local markets; or deals in which larger companies or venture capitalists acquire local start-ups to get access to their platforms or teams.

Considering the small size of the technology M&A market in Peru, no specific regulations have yet been issued regarding these transactions. For instance, there are no restrictions on the sale or transfer of any type of intellectual property. The transfer of a company that has access to personal data does not have restrictions, provided that the company keeps and manages personal data under the same conditions that were previously authorised by the data holders. However, note that the transferal of the data itself should be authorised by data holders (Law No. 29733, the Law for Personal Data Protection and the Regulation to the Law approved by Supreme Decree No. 003-2013-JUS).

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

No, there are no march-in or step-in rights with respect to any category of technologies under Peruvian laws.

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?

In Peru, legal title over technology and IP assets are granted to the individual who has developed such technology, or the company; if the technology is developed by individuals under labour or services agreements unless the parties agree otherwise (article 36 of Legislative Decree No. 1075 and article 23 of Andean Community Decision No. 486 for patents, utility models and industrial designs and article 71 of Legislative Decree No. 822 for copyrights (ie, software)).

According to Peruvian laws, Peruvian administrative authority the National Institute for the Defence of Competition and Intellectual Property (Indecopi) grants or recognises, as the case may be, the following titles in the case of inventions and technology developments:

- patents: protection as an exclusive right to use and exploit and benefit from an invention is granted for a 20-year term;
- utility models: protection as an exclusive right to use and exploit and benefit from an invention is granted for a 10-year term;
- industrial design: protection as an exclusive right to use and exploit and benefit from a design is granted for a 10-year term; and
- copyrights (ie, software): protection of moral rights and economic rights are different in scope and nature. Moral rights remain permanently to the benefit of the creator of the software code, electronic board, etc. Regarding economic rights, these can be transferred and are granted for the life of creator and additional 70 years after his or her death. Copyrights are protected by Peruvian law even if they are not registered at Indecopi.

Terms and procedures for registering a technology innovation or a development and obtaining legal titles over it are the following:

Patents, utility models and industrial designs

The procedure for registering a patent could take between three and five years, while registering a utility model could take approximately three years. Regarding registering an industrial design, the procedure could take between six to 12 months. To carry out any of these procedures, an application must be filed with Indecopi and has to be published in the Official Gazette. Once the application has been reviewed and approved by Indecopi, the authority grants the patent, utility model or industrial design, as requested, provided that no opposition from third parties has been filed.

If the person has filed his invention under the Patent Cooperation Treaty (PCT), this person can file a patent application before Indecopi using the priority given by the date of the PCT filing.

Copyrights (ie, software)

The procedure regarding copyrights takes approximately 30 to 120 business days. The procedure consists of filing a request with Indecopi, who, after reviewing it, will register the work (ie, software). This registration is not mandatory.

In the context of an M&A, the transfer of IP rights is agreed to by the parties in a merger or purchase agreement (as the case may be) and registered with Indecopi. Further, Indecopi will require an application with a copy of the merger's public deed or the entry issued by the Public Registries regarding the transaction, and payment of the correspondent administrative fees (approximately US$120).

Due diligence

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?

In Peru, due diligence related to technology M&A gives great importance to IP rights, their validity and enforceability, and the adequate performance of technology assets for the stated and agreed acquisition purpose.

Regarding IP rights, the review of labour agreements is prioritised to ensure all work performed by employees to develop the technology accrues directly to the benefit of the employer. If third parties have been hired for specific developments, it is important to review such third-party agreements to be certain that the target company has full ownership of the development. Additionally, it is also relevant to confirm that the holder of the IP rights to the assets has not or is not currently infringing any third-party rights.

When dealing with technology M&A transactions, importance is also given to the technical review of the IP assets. See question 10.

The main difference between mergers or share acquisitions, as compared to carveouts or asset purchases in the context of a traditional due diligence, is the scope of the analysis, and the matters to be reviewed in each of them are the key differentiators.

In this sense, mergers or share acquisitions involve acquiring a company and, consequently, it will be required to examine, at least, matters concerning corporate, tax, labour, regulation, intellectual property, real estate, the environment, litigation, personal data and insurance. (Other types of due diligence must be also required, such as financials, accounting, human resources, technical and operational due diligence to get the whole picture of the business and its operations.) Regarding legal due diligence of carveouts or asset purchases, it must be specifically focused on reviewing the asset to be acquired; therefore, legal due diligence should include property rights, intellectual property, taxes, regulatory and administrative matters, as well as insurance and litigation aspects related to the asset. Technical, commercial and operational due diligence processes become important in an asset acquisition.

Technology M&A due diligences are different based on the fact that technology companies are different from traditional companies. Technology companies are dependent from other technology providers, third parties and technology elements that give support to the company and the necessary tools to carry out its business. This means that technology companies exist and operate in an economic environment characterised by seamless integration and sometimes complex and crucial relationships.

Thus, there are some critical issues to focus on when performing a diligence over a technology company or IP assets. For instance, it is crucial to have a clear and detailed picture of cybersecurity matters, data privacy regulations and procedures, third-party IP rights, and any other matter related to information and know-how of the target.

Technology and IP assets involve sensitive and critical information that must be carefully protected, and the know-how and complex relationships must be assessed and duly determined in the due diligence to assure the business will continue operating.

Consequently, we recommend verifying if the seller is following security protocols, compliance procedures and setting critical operational rules (ie, information safety guidelines, rules regarding coding procedures as well as access to use of third-party codes or services, rules for backup of data, employee training plans, set of certain data access policies (ie, passwords), constant supervision of users of the information, among others) applicable to workers and service providers, and confidentiality agreements, among others.

Based on the above and according to our experience, we estimate that legal due diligence for mergers or share acquisitions usually take around four to six weeks, and legal due diligence for carveouts or asset purchases usually take about three to five weeks from the date that we receive complete information we request. However, it will depend on the complexity and the amount of information in each case.

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?

In Peru, it is customary to carry out the following public searches when conducting technology M&A due diligences:

- a search at Indecopi to verify IP asset registration status, amendments and other acts that could affect them (eg, a transfer, pledge, lien, registry cancellation) as well as to confirm identity of title holders of such intellectual property. We always suggest conducting searches before the following administrative authorities:
  - patents, utility models and industrial designs before the Directorate of Inventions and New Technologies.
  - copyrights (ie, software) before the Directorate of Copyrights. This search is merely referential, since registering copyrights is not mandatory.
- a search at the Registry of Movable Assets and Contracts to verify if the specific IP asset or technology has any lien, if it has been licensed or if there is any specific agreement by seller with third parties over such asset (recently enacted Legislative Decree No. 1400, Law of the Security Interests, changes the above-mentioned registry for a new system of publicly available information called the Information System of Movable Assets (SIGM);
- if technology M&A involves a company acquisition, it must be highlighted that the completion of such transaction will necessarily require the buyer to obtain more information and, consequently, carry out additional searches. For instance, it will be necessary to conduct public searches at the Peruvian public registries to confirm property rights, company's information, contracts, Indecopi (trademarks), the judicial courts to look for litigation procedures, credit reporting agencies for obtaining credit history of the company, among others.

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?

As mentioned in question 3, under Peruvian law, the following IP rights are registerable, among others: trademarks, patents, utility models and industrial designs. The registration of these IP rights is mandatory and it is a requisite for its legal protection and exclusivity under Peruvian law.

The registration of copyrights (ie, software) and trade names is not mandatory. Holders of such intellectual property do have certain rights even if they do not register their work (eg, right to use, exploit, among others).

Legal due diligence of registrable assets usually involves the review of the following information:

- certificate of IP rights issued by Indecopi, labour or services agreements if the holder of the IP rights is a company;
- expiration terms;
- proof of use,;
- payment of legal annual fees, if applicable; and
- registration of liens or security over IP rights at Indecopi.

Regarding non-registrable IP assets, legal due diligence usually includes the review of all the executed agreements and legal matters described in question 4.

In addition to the legal diligence of registrable and non-registrable IP assets, acquirers also request completion of market investigations or researches (quality and quantity) to confirm competition, advantages, improvement opportunities, etc.

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?

Yes. Liens and security interests over intellectual property can be granted under Peruvian law.

Liens are granted by a judiciary order upon claimant's request (article 608 of the Civil Procedures Code). This order can be obtained as a precautionary measure provided that there are enough grounds to support such claim. Once the lien is obtained, the court order its registration in the Registry of Movable Assets and Contracts and the corresponding registry of Indecopi. Registration at the Registry of Movable Assets and Contracts will vary (see question 5).

Security interest agreements have to be executed by the parties in writing to be valid (article 17 of the Law of Guaranty over Movable Assets, Law No. 28677, and article 6.2 of the new Law of Security Interests, Legislative Decree No. 1400, which will be enforceable once the Peruvian government implements the SIGM). It is not mandatory to register such security interests at the Registry of Movable Assets and Contracts (or to register security interest at SIGM once it is implemented). However, we strongly recommend registering them in order to ensure priority and enforceability against any third party.

As we said before, acquirers could carry out searches of IP rights at Indecopi as well as in the Registry of Movable Assets and Contracts (or SIGM, as the case may be).

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

According to Peruvian law, intellectual property developed under labour or services agreements is the property of the employer unless parties agree otherwise. Thus, due diligence review will usually focus on verifying that there is no specific agreement against the previously described rule.

Update and trends

Yes. Fintech companies are consolidating a position in the market and a number of transactions related to them or their technology have recently been in the spotlight. Some of the most relevant transactions include the acquisition of certain fintech companies by traditional banks or finance companies. Also, many banks have increased their investment in technology and innovation departments to offer updated services that could better stand the increasing competition of fintech companies.

Additionally, given the relevance of the IP assets, it is important to verify if the employees or contractors have executed non-disclosure and non-compete agreements with the target.

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?

No, there are no specific requirements by law for a transfer or assignment of intellectual property and technology, and there is no regulatory difference between exclusive and non-exclusive licences regarding transfer or assignment. Usually, contracts providing a licence to use certain intellectual property include a limitation to sub-license such intellectual property unless a previous written approval is granted by licensor. There is no specific regulation setting forth any additional requirement for the transfer or assignment of such licensed intellectual property.

Assignment is granted by licensor based on a contract that is registerable at Indecopi and the Registry of Movable Assets and Contracts. It is not mandatory to register such rights or its transfer. However, we recommend our clients to register the licences given that registration ensures enforceability against third parties in case of patents, utility models and industrial designs.

However, in the case of copyrights (ie, software), the registry at Indecopi only gives the holder proof of priority and informs third parties about the registered right (Copyrights Law, Legislative Decree No. 822, article 171 Andean Community Decision No. 351, article 53).

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?

When dealing with technology M&A transactions, we have seen a major relevance of the technical review of the IP assets. In this regard, usually the technical review includes, but is not limited to, having access to the source code and being able to run different tests, which may include stressing different areas of the code or platform to verify its capacity and growing potential.

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

There is no specific regulation on these matters or any M&A experience regarding these technologies that we are aware of. With regard to big data, it is important to consider that Peru has adopted specific privacy legislation such as Law No. 29733, Law for Personal Data Protection and its Regulations (Supreme Decree No. 003-2013-JUS). These pieces of legislation establish a National Register of Personal Data Protection and recognise guiding principles for the processing of personal data and regulate cross-border data flows.

As to natural language processing and speech recognition, there are an increasing number of Peruvian companies (banks, software companies integrating this service to their platforms) that are licensing these technologies and we have provided legal assistance to certain companies interested in such technologies. Similarly, we have been working closely to companies developing internet of things products and connected devices. See question 4.

Purchase agreement

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

Yes, it is customary. Usual representations include the following per each category.

Intellectual property

Representations and warranties include that the company is the exclusive owner of the entire right, title and interest in and to the intellectual property, and has a valid licence to use the intellectual property in connection with the business, as well as that the company is entitled to use all of its intellectual property in the continued operation of the business without any limitation. Additionally, the buyer usually includes representations that the company's intellectual property has not been declared invalid or unenforceable in whole or in part. Further, it will be reasonably required to include that the current business does not infringe or misappropriate the intellectual property of any third party, and no action alleging any of the foregoing is pending, and no claim has or could be filed (to the best of the seller's knowledge) against the seller or the company alleging any of the foregoing during a certain period.

Additionally, the acquirer could request the seller to provide representations about royalties, IP licences agreements, other commitments that involve IP rights or technology, etc.

Technology

Common representations and warranties include that the company is the exclusive owner of the entire right, title and interest in and to the technology, and has a valid title to use it in connection with the business without any limitation. Additionally, it is customary to include statements by means of which the seller or the target warrants that it has all permits, licences, authorisations and any other requirement to use the technology, as the case may be.

Cybersecurity

Usually, a buyer asks for representations and warranties regarding the rules and procedures that the target has regarding the management and protection of its information. In this sense, representations and warranties include that the target keeps its information under reasonable standards of care and diligence as well as that he or she manages his or her data following standard security protocols, procedures and rules to prevent any theft, disclosure, manipulation or deletion.

Data privacy

The buyer and the target must acknowledge and declare that they are in compliance with all Peruvian data privacy laws and they do not infringe any third-party right.

Additionally, as customary in Peruvian M&A transactions, we recommend including a complete list of all patents and patent applications, registered trademarks and trademark applications, registered copyrights and copyright applications and domain names under company's control or material to company's business or operation; all company IP agreements; and other company intellectual property relevant to the business, as the case may be.

It is also necessary to review all material contracts related to third-party IP rights and services. The rationale behind this suggestion is to have more certainty about the IP assets and technology of the target and specific representations and warranties on this regard.

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

Based on our experience, licences and authorisations are usually transferred at closing date. However, when the transaction includes certain licences or permits that may be transferred only after a procedure before the correspondent authority is completed, it is customary to include in the purchase agreement additional transitional covenants, such as, but not limited to, rights of use of trademarks and tradenames during the term necessary to complete registration. In this sense, the parties usually establish terms and conditions under the carveout agreement (ie, spin off) or asset sale itself.

Notwithstanding the above, transition services agreements will be also required to allow acquirer to ensure that business continues to operate as usual. Based on current level of technology development and technical expertise in Peru, it may also be necessary and convenient to execute labour agreements or technical support agreements with the main technical officers of the seller or the experts who managed and have material information about the technology assets.

Usually, non-compete agreements and non-disclosure agreements could be required, as in other M&A deals, owing to the relevance of specific expertise, human resources and information itself.

Finally, executed general shareholders meeting minutes will be required if a company transfers assets whose book value exceeds 50 per cent of its share capital (article 115,5 of Peruvian Corporate Law, Law No. 26887).

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

We have seen and highly suggest setting forth the following conditions and covenants in all M&A technology transactions:

- pre-closing conditions or covenants:
  - satisfactory completion of full legal and technical due diligence;
  - no injunction or any other measure is entered against the intellectual property and technology of the target or seller;
  - representations and warranties about intellectual property and technology are true and correct in all respects at the moment of execution of the agreement;
  - approval of the transfer of the intellectual property and technology from the general shareholders meeting of the target;
  - signature of all ancillary and transitional documents (ie, transitional services agreement);
  - complete the transfer of IP registry including, but not limited to, its registration;
  - release of all liens over the intellectual property, as the case might be;
  - complete the registration of the transfer of intellectual property (eg, patent, utility model) in favour of the buyer at Indecopi;
  - remediation of source code issues, if applicable;
  - correction of chain of title for intellectual property, if applicable; and
  - execution and receipt of all necessary governmental, regulatory and other third-party approvals, certifications and permits, if applicable (Note that it will depend on the specific deal and it could be set as post-closing condition or covenant of the seller); and
- post-closing conditions or covenants:
  - technical support agreement for certain period;
  - guarantee of technology assets for certain period of time;
  - provision of on-site services by seller's expert personnel;
  - a monetary compensation in favour of buyer if technology does not perform or does not have the specifications stated by seller and agreed to by parties in the purchase agreement;
  - additional satisfactory technical due diligence to be carried out by buyer; and
  - extra testing periods.

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

What is customary in Peru is to include a general indemnity section for breach of any rep and warranty (including, but not limited to, IP representations). No specific additional term is usually included besides the general term of the indemnity.

Considering the aforesaid, we recommend performing a complete and thorough due diligence that could be carried out as pre- and post-closing condition instead of bargaining longer survival periods of IP representations and warranties. The reason behind this is that it is difficult to oblige IP holders for long-term periods and make such agreement enforceable.

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?

In Peru, limitation of liabilities is only allowed by law when a breach is caused by minor negligence of the breaching party. Limitation of liabilities under Peruvian laws is not enforceable when the breach is owing to gross negligence or willful misconduct. Notwithstanding, it has become customary to include in all purchase agreements as a maximum cap of damages the total amount or value of the contract. In that sense, no specific upward limit is included for IP representation.

In purchase agreements that may create a breach of certain IP rights held by foreign companies, we recommend clients to include a rule regarding the way in which litigation will be handled and, eventually, the direct payment of any damage and loss that may be awarded to such companies. This is in addition to the damages directly caused to an IP buyer.

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?

Usually not. In our experience, a breach of IP representations is material and, therefore, causes the termination of the purchase agreement. However, it is possible that, if the infringement is not material, parties could agree that the seller will remedy the breach in a given term or provide certain form of compensation, according to the value of the contract.

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

Yes. Usually, the agreements include specific indemnities. In this context, buyers tend to include a clause in which they shall be indemnified and held harmless by the seller or the company, jointly and severally, for and against any loss, arising from or related to:

- any breach of representation or warranty related to intellectual property, data security of privacy matters, made by the seller or the target;
- liabilities of the target related to intellectual property, technology and data privacy whether arising before or at the time of signature of the agreement;
- liabilities of the target, arising after the time of signature of the agreement, even if the liability relies on any action, inaction, event, condition, liability, obligation or any other contingency made or generated before or at the time of signature of the agreement; and
- any and all losses suffered or incurred by the buyer or the target company (in the case of a technology M&A whereby a whole company is acquired) by reason of or in connection with any claim or cause of action of any third party to the extent arising out of any action, inaction, event, condition, liability or obligation of the seller or, prior to the signature of the agreement.
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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 our experience, parties usually agree that IP representations shall be true in all respects at the time of closing, and the acquirer is given the right to decide whether such condition is met. In Peruvian M&A deals, the acquirer normally has the right to close or leave open the transaction.

However, there are mechanisms that the parties negotiate and set forth in the agreement in order to be more flexible and close the deal under less risky conditions. For instance, certain conditions could be met as a post-closing obligation, provided that buyer hold back an amount of the purchase price or the buyer deposit an amount of the purchase price in an escrow account until such obligation is fulfilled.

Switzerland

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Structuring and legal considerations

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?

Generally, there are no specific key laws and regulations applicable to technology M&A transactions that would not be relevant to other types of M&A transactions too. So, to make one of the currently most relevant examples, the access to and transfer of personal data abroad (in connection with M&A transactions or otherwise) is subject to certain restrictions. If the legislation of the foreign country does not offer an adequate level of protection for personal data, under Swiss data protection laws and regulations, transfer or access outside Switzerland is allowed only if certain specific requirements with respect to such disclosure abroad are met. In this context one should, however, note that European legislation (the General Data Protection Regulation 2016/679) has introduced standards that are even more stringent than those of Switzerland. Obviously, restrictions in data transfers are already relevant at the stage of due diligence, in particular with regard to access to virtual data rooms.

Switzerland traditionally has a very liberal approach towards technology transfer and, generally, foreign investments. Accordingly, as a rule, no government approvals are required for technology M&A transactions. In certain industries (eg, telecommunications, broadcasting), however, the licensing authority may refuse to grant licences to companies incorporated under foreign law unless reciprocal rights are granted to Swiss citizens or Swiss companies by the respective foreign states.

In light of recent prominent transactions involving, particularly, Chinese state-owned buyers of Swiss companies (eg, takeovers of Syngenta by ChemChina, or Gategroup and Swissport by HNA), a number of motions have been submitted in the Swiss federal parliament advocating increased 'protection' of Swiss companies from takeovers by foreign (particularly state-owned) investors. The Swiss government has taken the position that existing regulations are sufficient but the political debates on this issue are far from over.

In conclusion, in the field of technology M&A, Switzerland has a very liberal legal and regulatory framework, with a high level of freedom of contract and in which the main driver is the parties' will.

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

Under the current legislation, there are, generally, no applicable Swiss acts that provide for governmental march-in or step-in rights with respect to certain categories of technologies. With regard to possible changes in laws and regulations, see question 1.

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?

Under Swiss law, IP rights are transferable within certain limits, whereby one must distinguish the property rights from the moral rights to intellectual property. Property rights to intellectual property, such as patents, copyrights, design rights and trademarks can be transferred without restrictions. Contrary to that, moral rights (eg, the right to be named as inventor) to patents and copyrights cannot be transferred on a contractual basis, but only by way of hereditary succession.

The transfer of property rights to intellectual property requires a legal cause and an act of disposition. Legal cause can be an agreement (eg, a purchase, donation or a barter contract), a court decision, the decision or act of administrative bodies (eg, in debt enforcement proceedings) or inheritance. The act of disposition for the transfer of patents (and patent applications), designs and trademarks must be in writing to be valid, whereas, in contrast, for the transfer of copyrights no formal requirement applies (for practical reasons, the transfer should nonetheless be made in writing). Since neither the general principles of tradition of tangible property nor of contractual assignment are directly applicable with respect to the act of disposition of intellectual property under Swiss law, the transfer is considered as a form of transfer sui generis.

Due diligence

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?

In general terms, due diligence with respect to IP assets is aimed at revealing the value of the target company's intangible assets by means of analysing the relevance of intellectual property for the valuation of its business. The scope and depth of a due diligence depends on the relevance of intellectual property for the valuation of the target company's business and, hence, its impact on the value of the transaction.

The typical areas of due diligence undertaken in Switzerland include the identification of business-related intellectual property of the target company and the review whether the IP rights used for its business are actually owned by the company. If the intellectual property used by the target company is owned by third parties or shareholders, due diligence includes the analysis whether the target company has concluded sufficient licence agreements for a continued use of such intangible assets (and may include an analysis as to the prerequisites for the transfer of the intellectual property to the target company, if such transfer is contemplated).

The due diligence undertaken with regard to ownership includes the assessment whether the IP registrations are up to date, whether a clear and complete chain of title can be identified and the review of whether there are security interests or liens created over the intellectual property. The key focus of due diligence undertaken with respect to IP assets is to ensure the title to and scope of protection of the IP assets. The buyer has to analyse whether the IP rights are owned by the target company and validly registered in the countries where the company is conducting business.

Further areas of due diligence include the review of any IP-related litigation by and against the target company. The aim is to verify whether any third party is, or is suspected to be, infringing the target company's IP rights and to verify that the target company is not infringing a third party's IP rights (freedom to operate).

The sale of a company by way of a share deal entails the transfer of the company as a whole, with all assets and liabilities – which means that assets or liabilities do not have to be transferred individually.

Conversely, this also means that any liability in the company must be detected and assessed, because it will have a negative impact on the target – and, thus, also on the value of the technology. Accordingly, in transactions in the legal form of a share deal, a comprehensive due diligence with respect to all of the company's intellectual property must be undertaken.

In an asset deal, to the contrary, the buyer acquires specific assets (and, if so agreed, liabilities) from the target company, often in a series of individual, although simultaneous and connected transactions. The due diligence of IP rights undertaken for transactions in the legal form of an asset deal is, therefore, limited to the IP asset or assets the buyer intends to acquire.

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 public searches that are customarily performed when conducting technology M&A due diligence in Switzerland include the verification of ownership of registrable IP rights in the IP registries. The Swiss Federal Institute of Intellectual Property (IPI) operates a database, which allows searches for registered Swiss and European patents and patent applications, Swiss trademark and design registrations and applications as well as registered topographies.

Further public searches that a buyer would typically perform when conducting IP due diligence include the database of the Swiss commercial register to ascertain publicly available information on Swiss registered company names, as well as publicly accessible internet domain name databases operated by Swiss registries.

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 Switzerland, registrable intellectual property include trademarks, patents, designs, topographies and some specific indications of source, while copyrights (rights of authorship) are not registrable. There is no copyright registration system under Swiss copyright law. With respect to the registrable type of intellectual property, due diligence includes the verification that the respective IP rights are registered in the name of the target company through searches in the relevant databases.

With regard to non-registered (whether non-registrable or not) technical know-how, data and secrets, key due diligence areas will typically include employment and employees as well as advisers (contracts, non-competition agreements, remuneration and incentives), organisation (measures in place to preserve the confidentiality of know-how and data) and customers (customer base and behaviour, customer contracts).

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?

Swiss law provides for the possibility of granting security interests over IP rights. The types of security interests that are typically used in relation to intellectual property under Swiss law are the granting of a lien (or pledge) on intellectual property or the assignment of intellectual property for security purposes. The provisions governing the creating of security interests over IP rights are set out in the general provisions of the Swiss Civil Code (SCC) and in the individual codes governing specific types of intellectual property (eg, the Federal Act on Patents for Inventions, the Federal Copyright Act, the Federal Trademark Act).

The Swiss Federal Trademark Act, as well as the Swiss Federal Design Act, specifically mention the possibility to create a lien on trademark and design rights. The creation of a lien over other IP rights is governed by the general provisions of the SCC and, in general terms, requires the transfer of the property rights to intellectual property. As a rule, property rights to intellectual property are transferable under Swiss law. There are, however, exceptions to this rule including, for example, name and company name rights as well as moral rights to intellectual property, such as the right to be named inventor. These rights are considered as non-transferable under Swiss law.

The lien granted on a registrable intellectual property may be recorded in the pertinent IP registries. If a lien is not recorded, it is not effective *vis-à-vis* a bona fide acquirer of the underlying IP right. Accordingly, due diligence must include the search of the applicable registers to ascertain whether intellectual property is subject to a lien. For the cancellation of the recorded lien, IPI requests an explicit waiver by the pledgee, which must be provided by the trademark or design right owner with a written request for cancellation.

Under Swiss law, IP rights can further be transferred for security purposes. The assignment of intellectual property for security purposes is governed by the general principles of contract law. A security assignment entails the transfer of full ownership to the security interest beneficiary. The security interest provider typically requires an exclusive licence in return for transferring ownership in the IP asset. The release of a security assignment over an IP right or technology assets requires that ownership of the IP right or technology asset be transferred back in accordance with the provisions applicable to the individual IP rights. Due diligence undertaken with respect to intellectual property that has been transferred by the company for security purposes includes the review of the underlying security assignment agreement and an analysis whether the company has ensured the continued use of the intellectual property based on a licence agreement.

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

Under Swiss law, employee-created inventions, designs and software for computer programs created during the course of work while performing an employee's contractual duties belong to the employer, provided that nothing else is agreed in the employment agreement. Employee-created inventions, designs or computer programs created during the course of work, but which are not part of the employee's contractual obligations, must be reported to the employer if this has been agreed in writing. The employer can then decide whether he or she wants to obtain the invention, design or computer program in question for a reasonable consideration. Accordingly, due diligence undertaken with respect to employee-created intellectual property includes the review of the respective employment agreements in place with employees.

There is no general rule under Swiss law whether contractor-created intellectual property belongs to the contractor or the customer (principal) but, rather, this depends on what is agreed in the contractor agreement. Hence, due diligence includes the review of the respective contractor agreements to ascertain information whether it has been contractually agreed that any inventions or designs originated by the contractor shall be transferred to the target company.

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 Swiss law, a licence is a contractual right granted by the licensor to use certain IP rights according to the provisions set forth in the licence agreement. Therefore, the transfer of a licence from a current licensee to a new licensee generally requires approval by the licensor. This is not the case if the licence has been designated as transferable in the licence agreement. If an approval for the transfer of a licence is necessary, the licensor can give it in a form-free way (ie, no formal requirements apply). These same principles apply both to exclusive and to non-exclusive licences.

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?

Under Swiss law, software is usually protected by copyright. Unlike trademark and patent protection, copyright protection arises when work is created, and there is no copyright register.

In Switzerland the types of software due diligence include the due diligence of the target company's own software and the due diligence of the third-party software used by the target company. In relation to the company's own software, the key element of due diligence consists of the verification of the ownership of or adequate licensed rights to use the software.

To that purpose, due diligence includes the review of the originator of the source code underlying the software and whether the copyrights have been effectively vested in or transferred to the company. If the source code was developed by an employee while performing his or her employment activity and contractual duties, the copyrights belong to the employer. If the source code was developed by a non-employed contractor, copyright transfer agreements are necessary to ensure the company's title in the software. If several persons contributed to the development of the source code, a software is considered to be co-owned. As a rule, co-owners may only use the software with the consent of all owners.

With respect to third-party software used by the company, due diligence typically includes the review of the relevant licence agreements to ensure continued use of the software. It is not customary in Switzerland for targets to provide code scans for third-party or open source code software.

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

Additional areas of due diligence undertaken with respect to companies with a digital business model include the due diligence of the company's data handling. Data handling due diligence includes the review whether the company complies with the applicable data protection regulations of the relevant jurisdictions, as well as the review of the company's data security measures against the misuse of data and to protect business and trade secrets.

One important legal aspect with respect to artificial intelligence is that under Swiss law only individuals can be the inventor of a patentable invention or the author of copyright protected work. Based on current Swiss law, it will, therefore, be difficult to protect inventions and works created by machines using artificial intelligence. For this reason, in IP law it will become unavoidable to adapt legislation to a certain extent to new technologies such as artificial intelligence or the internet of things.

With respect to big data, one legal aspect to consider is that under Swiss law, data (at least raw data) is not protected by IP rights and there are also no other ownership rights to data by operation of statutory law.

Purchase agreement

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

The inclusion of representations and warranties is not only customary, but, owing to the characteristics of the Swiss legal framework, necessary. The legal framework for representations and warranties, which is mainly of dispositive manner (ie, it applies by way of default, to the extent that the parties do not provide for specific provisions in the contract), is largely inadequate for M&A transactions, particularly for share deals where the target is a whole business, and does not offer an appropriate protection to buyers.

Accordingly, in technology M&A transactions it is customary to include specific representations and warranties for intellectual property, technology, cybersecurity or data privacy. The extent and contents of these representations will vary depending on a number of factors, such as the relevance for the transaction of the technology and of the business model of the target (the more relevant, the more specific and stringent the representations), the kind of technology and intellectual property involved and, last not least, the bargaining power of the parties.

Typically, these representations include:

- registered or registrable IP representations:
  - complete and accurate list of intellectual property, as well as licences granted and received;
  - legal and beneficial ownership and absence of liens;
  - existence and enforceability of intellectual property;
  - taking action for maintenance and prosecution of registrations;
  - absence of any pending or threatened challenge (eg, opposition); and
  - due assignment of IP rights by employees and persons who have created or participated in the creation of intellectual property;
- non-registrable IP representations:
  - proper recording and documentation of the intellectual property;
  - proper storing and observance of measures to protect the confidentiality of the intellectual property; and
  - non-disclosure of confidential information, which is, respectively, only subject to contractual obligation of counterparts to preserve confidentiality;
- IT representations (see 'cybersecurity representations'):
  - fitness of IT systems and assets for the conduct of the business of target;
  - taking of actions for preserving operation and security of the IT assets (including backups, disaster recovery and avoidance, and security protocols); and
  - where applicable, compliance with sector and industry standards;
- data protection representations:
  - compliance with privacy laws, as well as with spamming, automatic software downloads regulations, etc;
  - implementation and observance of compliance procedures and policies; and
  - absence of investigations and litigation (actual or threatened) in these fields; and
- cybersecurity representations (see 'IT representations'):
  - performance of security checks, elimination and mitigation of vulnerabilities; and
  - absence of any incidents (unauthorised access, modifications and corruption of systems).

Beyond that, IP and technology-related representations and warranties will follow along the scope of the due diligence undertaken (see questions 4 to 11). Also, representations will include compliance with regulations, practices and standards that apply to specific technologies and businesses (eg, financial services or fintech, medical product candidates or medical devices).

For technology businesses, an extension of IP warranties will often also be achieved through the use of a very wide definition of 'Intellectual Property Rights', which will generally include, besides specific categories of (registered or unregistered) IP, know-how and any category of relevant data and information. IP representations and warranties will, thereby, apply to this expanded definition.

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

In carveout or asset deals it is customary for the parties to the transaction to enter into the following agreements:

- transition services agreement;
- licence-back agreements (if ownership in intellectual property is transferred as part of the carveout or asset deal);
- licence agreements (if ownership in certain intellectual property is not transferred as part of a carveout or asset deal transaction but only licensed to the acquirer); and
- cooperation or partnership agreements (eg, to facilitate transfer of assets or intellectual property or for continued research and development work between the entities involved).

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

Typical pre-closing conditions or covenants include:

- invention and IP assignment clauses, notably from current and – if necessary – former employees and consultants;
- re-registering or otherwise updating registered intellectual property with the relevant registries so as to correct any issues detected;
- entering into ancillary or separate agreements, including:
  - (transitional) licensing or cooperation or transition services agreements; and
  - third-party consents: the buyer may require the seller to attempt to obtain consent from counter-parties to some or all of the purchased IP or IT agreements that, for example, prohibit assignment to the buyer, include a change-of-control prohibition or provide for restrictions of the intended use of the technology (eg, owing to restrictive exclusivity provisions). This would also apply to instances where the chain of title for the intellectual property needs to be corrected;
- conduct of business covenants (eg, prohibition to dispose of assets without buyer's consent); and
- covenant that representations and warranties are correct.

Post-closing

In an asset purchase or carveout transaction (less so in a share deal transaction), certain post-closing steps usually are necessary to document the transfer of the purchased IP assets in connection with the transaction. The buyer may have to file assignment documents with IP registries to update the record ownership of all IP registrations and applications included in the purchased assets.

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

The most widely encountered survival or warranty expiration periods in transactions in Switzerland range between 18 and 24 months, with shorter or longer periods of a minimum of 24 and maximum of 36 months also being agreed to in a number of cases. Basically, these same periods also apply to intellectual property and technology-related representations, particularly in the case of share deals. In asset deals, particularly where the object is registered intellectual property (such as patents), representations related to title to and right to use such intellectual property often have five or 10 years' survival periods. The same is sometimes encountered – or is at least regularly the object of intensive negotiations – in share deals, where the main or predominant asset of the target is an intellectual property.

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?

Usually IP representations and warranties are embedded in the general liability cap. This is particularly the case where they have the same survival periods as the other representations. Where intellectual property and technology are the main drivers to the value of the target, they will primarily affect the amount of the liability cap (ie, drive it upwards). On the other hand, in Switzerland it is rather unusual to have different liability caps for single categories of representations – title to shares or key assets being the exception. For these latter categories of representations, specific caps are usually much higher (between 50 per cent and 100 per cent of the purchase price) than the general caps (which normally range between 20 per cent and 30 per cent of the purchase price, or sometimes even less).

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?

With regard to de minimis thresholds, liabilities for breach of intellectual property will in principle follow along the rules generally agreed by the parties in the contract. Following the logic already described above, where IP representations will be more stringent (eg, in terms of survival periods and caps) limitations on recovery will be more reduced.

Beyond that, in certain cases, parties will agree on specific indemnities (see questions 18 and 19), to which the limitations on recovery for breaches of representations will usually not apply.

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

Specific indemnities are usually only included if specific issues have been identified in due diligence. In some instances (and where bargaining power or market situation allows), indemnities are included with regard to assets (eg, a patent) that are considered to be of fundamental importance for the value of a target. If not, then definitive agreement usually provide for the normal remedies for breaches of representations and warranties (ie, damage, which usually is limited to direct damage and subject to limitations, qualifications and caps).

The scope of these indemnities depends on the issue identified in due diligence (and for which the buyer is seeking specific protection). Generally, indemnities are structured as an obligation of seller to fully indemnify purchaser (or, as applicable, the target) for any and all losses, damage, costs (including defence and legal costs), whereby the indemnity is not restricted or qualified in any way (specifically by disclosure, purchaser deemed or actual knowledge, or seller best knowledge). Also, typically neither de minimis nor caps apply to indemnities.

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?

Traditionally, representations and warranties are given as at the time of signing of the agreement and as of closing, with the same level of accuracy. Thereby, it is rather usual to see that representations and warranties must, generally, be true in all respects (with materiality, best knowledge or other qualifiers applying to individual representations) – sometimes, though, a general materiality qualification of all, or at least many, representations is encountered (particularly in a seller market situation).

As a recent development, sometimes parties agree not to have accuracy of representations and warranties as a specific condition precedent. On the other hand, 'no material adverse effect' (not directly related to the representations and warranties) is often seen as a condition precedent. It is also not unusual to see that, when brought down at closing, IP representations and warranties are required to be true in all material respects only. In conclusion it can be said that the treatment of representations and warranties as a closing condition and the level of breach accepted or required before an acquirer has the right not to close or complete the transaction is a matter of negotiation.

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Structuring and legal considerations

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?

It is very common that technology M&A transactions involve the transfer or assignment of intellectual property rights. Although there is no law in Taiwan specifically defining IP rights, some legal scholars, after considering the Agreement of Trade-Related Aspects of Intellectual Property Rights (TRIPs), stated that the scope of IP rights includes copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout designs (topographies) of integrated circuits, protection of undisclosed information and control of anti-competitive practices.

In Taiwan, the key laws with respect to IP rights comprise of the Patent Act, the Copyright Act, the Trademark Act, the Trade Secrets Act, the Plant Variety and Plant Seed Act, the Integrated Circuit Layout Protection Act, the Fair Trade Act and the relevant enforcement rules and regulations.

In general, unless the IP rights are owned by the government, there is no government approval requirement specifically governing the transfer of IP rights in Taiwan. However, several legislators have proposed a draft of the Sensitive Technology Protection Act (STP Act), under which any sensitive technology announced by the competent authority (ie, the Ministry of Science and Technology (MOST)) shall not be exported or publicised without obtaining prior approval from the MOST. 'Sensitive technology' refers to highly sensitive and special science information other than academic research, which has significant impacts on national security and public interests and meets the stipulated requirements, including that it is not known to persons generally involved in the said information; it has economic value, actual or potential owing to its secretive nature; and the right owner thereof has taken reasonable measures to maintain its secrecy. The draft STP Act is under the review of the first reading of the Legislative Yuan.

If any governmental approval or official registration is required during the performance of technology M&A transactions, the completion of such approvals and registration may be incorporated as conditions precedent to the closing so to fairly allocate legal obligation and risks among parties.

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

As per the Government Scientific and Technological Research and Development Results Ownership and Utilisation Regulation, when research and development (R&D) results, sponsored by a funding authority and owned by an R&D implementing unit, are being transferred to a third party, the transfer shall, unless otherwise provided by law or contract, be approved by the funding authority.

In addition, under the Personal Information Protection Act, if transactions involves international transmission of personal information of Taiwan citizens and either of the following circumstance occurs, the government authority in charge of subject industry may limit such transmission where: it involves major national interests; national treaty or agreement specifies otherwise; the country receiving personal information lacks proper regulations towards the protection of personal information and it might harm the rights and interests of the Taiwan citizens; or international transmission of personal information is made through an indirect method in which the provisions of this act may not be applicable. The National Communications Commission has issued a ruling in 2012 prohibiting Taiwan communication enterprises from transmitting any users' personal information to China based on the aforesaid provision.

Further, as mentioned in question 1, legislators are proposing to stipulate the STP Act to protect sensitive technology by granting the MOST the right to approve the exportation and publication of sensitive technology. As per the draft STP Act, the MOST will further specify detailed items of sensitive technology and countries and areas for export restriction. In addition, MOST shall retain relevant organisation, experts, scholars and persons in relevant industries for reviewing exportation and publication applications.

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?

In Taiwan, most technology and IP assets may be categorised as patent rights, trademark rights, copyrights, plate rights, rights in circuit layouts, plant variety rights or trade secrets.

In principle, owners of the aforesaid rights and trade secrets may transfer the rights and trade secrets via an oral or written agreement with the transferee, but if the rights and trade secrets to be transferred are jointly owned, no joint owners may assign the rights and trade secrets without obtaining a prior consent from all other joint owners. However, under the Trademark Act, no consent from other joint owners is required if the trademark right is transferred owing to succession, compulsory enforcement, a court decision or requirements stipulated by other laws.

For rights subject to registration requirements, including patent rights, trademark rights, plate rights, rights in circuit layouts and plant variety rights, the transferee of such rights will not have locus standi against any third party unless the transfer is registered with the competent authority (ie, the Intellectual Property Office; the Ministry of Economic Affairs (TIPO) for patent rights, trademark rights, plate rights and rights in circuit layouts; and the Council of Agriculture, Executive Yuan (COA) for plant variety rights).

Due diligence

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 target company is usually requested to provide detailed information of the technology and IP assets to be transferred, including but not limited to registration certificate of IP rights; relevant licence, development and labour agreements with contractors or employees if the technology and IP assets are not exclusively owned or developed by the target company; pledge agreement (if any); protection measures adopted to protect and maintain the enforceability and entirety of the

Update and trends

As mentioned in question 1, to prevent sensitive domestic hig. h-technology from being stolen or infringed through multinational technology merger and acquisition transactions, some legislators propose a draft STP Act, under which any sensitive technology announced by the MOST shall not be exported or publicised without obtaining a prior approval from the MOST. Since the draft STP Act is still under the review of the first reading of the Legislative Yuan and various detailed enforcement rules are needed for implementing such new protection scheme, potential technology transaction parties are recommended to closely follow up the development status of such draft STP Act.

As for special and emerging technologies, such as autonomous driving, the Executive Yuan has passed and proposed a draft Unmanned Vehicle Technology Innovation Experiment Regulation covering any unmanned driving, aerial, marine and other vehicles. In the future, when carrying out innovative experiments on self-driving vehicles and unmanned aircraft, the provisions of applicable traffic regulations will be ruled out. The principle of the experiment period is one year and the longest is four years. The bill was sent to the Legislative Yuan for consideration.

technology and IP assets; and disputes or potential disputes arising from the technology and IP assets.

In comparison with due diligence for mergers or share acquisitions, which puts more focus on the performance of whole target company, the due diligence investigation for carveouts or asset purchases tends to place the emphasis on whether the assets to be transferred have any de jure or de facto defects resulting in the buyer not being able to acquire and use such assets free of encumbrance. In addition, buyers often elect to retain specific technology teams to conduct relevant technology investigation and assessment.

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?

Public registration information on IP rights may be retrieved from the following websites:

- Patents: the Taiwan Patent Search System (https://twpat1.tipo.gov.tw/tipotwoc/tipotwekm). The information available for public search includes the:
  - patent or publication number;
  - title;
  - issue or publication date;
  - application date;
  - application number;
  - certification number;
  - international patent classifications;
  - inventor;
  - applicant;
  - attorney;
  - priority number; and
  - patent right change, such as licence, pledge, assignment, trust and citation.
- Trademarks: the Trademark Search System (https://twtmsearch.tipo.gov.tw/OS0/OS0101.jsp?l6=en_US&isReadBulletinzh_TW=true). The information available includes:
  - trademark name;
  - application number;
  - priority;
  - applicant;
  - attorney;
  - class;
  - goods and services;
  - registration history;
  - reproduction of the mark;
  - textual analysis of logo; and
  - current registration status.
- Rights in circuit layouts: the Taiwan Patent Search System (Chinese version only) (https://twpat1.tipo.gov.tw/tipotwoc/tipotwekm). The information available includes:
  - application number and date;
  - name of circuit layouts;
  - publication date;
  - certification number and issuance date;
  - case status;
  - brief explanation;
  - creator;
  - applicant;
  - attorney;
  - classified organisation; and
  - technique and function.
- Plant variety rights: the COA website (https://newplant.afa.gov.tw/English/Search). The information available includes:
  - publication number;
  - application number;
  - Latin name;
  - denomination;
  - application date;
  - publication date;
  - rights status;
  - plant variety rights coverage;
  - applicant's information; and
  - denomination's pictures.

Moreover, a buyer may check whether a target company involves any IP rights litigation or disputes from conducting public searches on Law and Regulations Retrieving System operated by the Judicial Yuan (http://jirs.judicial.gov.tw/eng).

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?

Registrable IP rights include patent rights, trademark rights, plate rights, rights in circuit layouts and plant variety right; but copyright and trade secrets are not registrable.

As for the registrable rights, public research on registration information is the most important measure to confirm the enforceability of the rights and the target company is always requested to provide relevant licence, development, pledge, non-disclosure and non-competition agreements for review. The buyer will check whether the currently registered scope is complete and sufficient and whether there are potential risks that such registered rights may be subject to infringement claims from competitors or other parties.

With respect to non-registrable rights, due diligence will focus on whether the target company fulfills stipulated requirements for acquiring such rights. For copyright, the target company is required to provide documents evidencing the creation of the work and licensing and pledge agreements (if any) for review. As for trade secrets, the target company is usually requested to prove that: the secret is not known to persons generally involved in the information of this type; the secret has actual or potential economic value owing to its secretive nature; and the owner has taken reasonable measures to maintain its secrecy.

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?

According to the applicable laws, liens may be granted on patent rights, trademark rights, copyrights, rights in circuit layouts and plant variety rights, and no written documents are required. However, the lien holder will not have locus standi against any third party unless the grant of liens is registered with the competent authorities. The lien registration with respect to patent right, trademark right, and plant variety right may be available from the websites indicated in question 5. As for liens granted on copyright, public information is available from the TIPO website (https://www.tipo.gov.tw/lp.asp?CtNode=6974&CtUnit=3459&BaseDSD=7&mp=1).

The required application documents and registration process varies for different rights. As per TIPO's internal guidelines, the lien registration and release thereof shall be completed within one month (for trademark rights) or 20 days (for patent right) after TIPO's receipt of the complete application package. In practice, unless otherwise agreed by the parties, the release of liens is usually stipulated as a condition precedent to the closing.

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

According to the applicable laws, if an employer and employee or a principal and contractor enter into agreements on the ownership of employee-created and contractor-created intellectual property and technology, the agreements will govern. Thus, to ensure that the target company owns the titles to such intellectual property and technology and the accrued IP rights, especially for non-registrable copyright and trade secrets, the target company is required to provide any written agreements executed with employees or contractors stipulating that the target company owns the right to any employee-created and contractor-created intellectual property and technology. In practice, a buyer will further check whether the target company has adopted any notice scheme for employees and contractors filing written notice to the company on the creation of the intellectual property or technology.

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?

Since the transfer or assignment of licensed intellectual property is essentially the same as transferring the original licence agreement between the licensor and the licensee to a third party, the licensor's prior consent is required, and the transferee has no locus standi against any third party unless the transfer is registered to the competent authority. There is no difference between the transfer of exclusive and non-exclusive licences.

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?

As for software that may be categorised as patent right, copyright and rights in circuit layouts, see above. In Taiwan, it is less common for legal due diligence purposes to request the target company to provide code scans, but a buyer may retain professional technical team to do code audits if necessary. With that said, once a codes scan shows that open source code is used, the legal team will review whether the terms of use for the open source code have been complied with.

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

In addition to legal due diligence, a technology due diligence is strongly recommended to see whether the technology and IP assets to be transferred is sufficient and complete for meeting the buyer's business needs. If the target company used the assets to be transferred to engage in any projects sponsored by government authorities, the buyer needs to closely investigate the restriction or prohibition stipulated in the sponsorship plan. In addition, if the assets or technology to be transferred involves the collection of personal data from the public, such as big data, the buyer should further focus on personal data protection issues.

Purchase agreement

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

Technology M&A transactions generally include specific representation and warranties requiring the target company to list the IP rights owned by the target company, such as patents, marks and copyrights. The target company is also generally required to represent and warrant that:

- it has not infringed or misappropriated any third party's IP rights;
- there are no claims of infringement or misappropriation against the target company;
- it has appropriately registered its IP rights in the relevant jurisdictions; and
- it has sufficient rights in the intellectual property used in its business by either owning or being duly licensed to use such IP rights along with a statement that its employees and contractors have entered into agreements to duly assign the IP rights created by such employees or contractors to the target company.

Further, a target company is generally required to represent and warrant that it has taken all precautions to protect its trade secrets, that to its knowledge that there has been no infringement of its IP rights, and that any exclusive licences granted to third parties for its use of intellectual property are fully disclosed. In the case of a target company that develops software, representation and warranties disclosing the open source software and licences, and a statement on compliance with open source obligations, are generally required.

For data privacy, representation and warranties regarding having a privacy policy in place, the target company's compliance with the privacy policy, and compliance with relevant laws and regulations on the use, collection and processing of the information are generally required.

We have not seen that cybersecurity representation and warranties to be a common practice in technology M&A transactions in Taiwan, but we expect that they will become more customary in the future as the risk of liability for cybersecurity breaches become more common.

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

We customarily see transition services agreement and trademark licence agreements in carveout or asset sales during the transitory period. Further, depending on the business requirements of the target company and the acquiring entities, such as the parties are in the same manufacturing and supply chain, there may be IP licence or supply agreements.

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

Pre-closing conditions usually involve requiring the target company to ensure proper title to the intellectual property owned by it, such as having their employees or contractor sign confidentiality and IP assignment agreements, and to obtain any consents for the assignment or change of control in IP licences . Post-closing covenants usually include non-competition, non-solicitation clauses and confidentiality clauses. In addition, depending on the business requirements of the target company and the acquiring entities, there may be cooperation or a licensing agreement between the acquiring company and the target company or its affiliates providing a favourable licence or service fee schedule.

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

In general, the survival periods of representations and warranties depend on the nature of the representations and warranties and the circumstances of breaches thereof. However, if the buyer specifically requests longer survival periods for IP representation and warranties, (eg, one year longer than the survival period for general representation and warranties), this request needs to be addressed and agreed by both parties in the carveout or asset sale agreement.

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?

Unless otherwise specifically agreed by the parties or permitted by the law, there is no general liability cap for breach of contractual obligations, including IP representations and warranties. In fact, even if that the parties agree to set a cap for breach of contractual obligations, it is common that the breach of IP representation and warranties is excluded from the application of such cap clause.

As per the Patent Act and Trade Secrets Act, if the infringement of patent rights or trade secrets is found to be intentionally committed, the court may, upon request and on the basis of the severity of the infringement, award the damages greater than the loss actually suffered but not exceeding three times the proven loss.

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?

No, unless otherwise specially agreed by the parties, usually the threshold, baskets and deductibles are not separately defined for breach of IP representations.

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

Yes, specifically where the target company's disclosure schedule indicates that there are existing claims or breaches, then besides the general indemnification on breach of representation and warranties, there would be a specific requirement for the target company to indemnify the buyer for liability arising from such disclosed claim or breaches.

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?

IP representations and warranties are usually required to be true in all respects. With that said, there is usually a knowledge qualifier for the representation and warranties regarding infringement of third-party intellectual property and third-party infringement of the target company's intellectual property. For example, the target company represents and warrants that, to the best knowledge of the target company, it has not infringed or misappropriated any third party's IP rights, and there are no claims of infringement or misappropriation against the target company.

Turkey

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Structuring and legal considerations

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?

As value in technology companies and transactions concerning them mainly reside in and are centred around the intellectual property rights of the target, the Law on Intellectual and Artistic Works, the Law on Industrial Property and secondary legislation thereof are the key laws and regulations implicated in such transactions. While some IP rights, such as trademarks, are still heavily relevant for other types of M&A transactions, since the value in technology companies and their business models are strictly related to their intellectual property rather than their tangible assets, the above laws are of an even greater importance when it comes to technology M&A transactions. Incidentally, it must be stressed that business models are not protected as IP rights under Turkish law. Depending on the field of activity of the technology company concerned, additional government approvals may be sought, as some of the technology industries, such as fintech, cryptocurrency and e-communications are heavily regulated under Turkish law.

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

In certain industries, an approval, prior consent or post-transaction notice from or to a regulatory body (other than the Competition Board) may be needed to finalise share transfers. This is the case for heavily regulated industries, such as energy production, finance and trading, capital markets, media and communications.

When the target's businesses are related to such regulated industries, governmental organisations must intervene. However, such approvals are not related to 'categories of technologies', but rather related to the regulatory powers admitted to such governmental organisations in the relevant industry at which the technology company concerned is active. Moreover, there are some regulatory indirect measures, such as requirement of a local entity or data localisation rules that, in effect, work as government march-ins.

Further, regarding the privatisation of once public companies, the government may keep 'preferred shares' if the High Council of Privatisation deems it is strategically necessary for public policy. Thus, the government may continue to directly interfere or have negative control over important actions of the company.

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?

Title to trademarks, designs, patents and utility models (registrable IP rights) shall be transferred by means of a written agreement certified by the notary public. There are no other formalities to effect such transfers. However, such assignments need to be submitted to the relevant registry to be binding upon third parties (perfection). On the other hand, whereas intellectual property in software is protected by copyrights under the Law on Artistic Works and Intellectual Property, referred to as 'computer programs', title to copyrights is transferred by means of a written agreement that explicitly states which rights and powers related to the copyright material shall be transferred to the acquirer. There are no further formalities to effect such transfer. As for the domain names that uses '.tr' extension, an online form needs to be submitted to the registrar entity from which the domain name holder procures services to effect a domain name transfer.

Due diligence

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?

When due diligence is carried out for M&A transactions and share purchases, the main focus is on the business model of the target and regulatory compliance of such, rather than the ownership of the IP rights, chain of titles and registrability thereof. This is because, for M&A transactions and share purchases, the acquirer may also require certain representations and warranties to offset ownership-related risks and secure its investment; whereas, when an asset purchase or carveout is concerned, the whole purpose of the transaction is to benefit from the relevant IP rights or business. Therefore, an indemnity may not be adequate to offset investment risks.

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?

Trademarks, patents, utility models and domain names are registerable IP rights under Turkish law. Therefore, a due diligence as to the ownership of target's trademarks, patents, utility models and domain names can be conducted via public searches. Moreover, the shareholders of an incorporated business are publicly available via the trade registry gazette and, regardless of whether there are IP rights registered under the name of the target's shareholders, they may also be checked. Unfortunately, other IP rights, such as copyrights, are not registered; therefore, ownership is not publicly available and the acquirer has to trust the documents provided by the target to confirm the chain of titles. In such a case, the due diligence process may focus on the demonstrability of the ownership.

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?

Trademarks, designs, patents, utility models and domain names (with '.tr' extension) are registerable IP rights under Turkish law, whereas copyrights are not. When registered IP rights are concerned, the registrability and demonstrability of the ownership is not part of the due diligence process, as the registered owners are deemed the truthful owners; however, when the target holds a non-registrable IP right, registrability and demonstrability of the ownership are the main focus of a due diligence process. For due diligence processes concerning the registered IP rights, the main difference in each is the relevant protection periods for trademarks, designs and utility models.

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?

IP rights can be subject to liens, which are granted by means of a written agreement, and no further action has to be taken to effect a lien. For registered IP rights, liens may also be registered for the purposes of perfection. This act of registering can be concluded by submitting of simple petition accompanied with the necessary documentation to the relevant registrar.

For non-registered intellectual property, such as copyrights, perfection is also an option under the Law on Liens on Intangible Assets in Business Transactions. For the purposes of perfection, the lien agreement must be notarised and submitted to the Intangible Liens Registry. However, a non-registered lien agreement concerning a copyright is still enforceable under Turkish law, provided that the agreement is in writing.

To ensure there are no binding lien agreements concerning the IP rights, while drafting the asset transfer agreement, the acquirer usually requires a representation from the target that the copyright is free of any encumbrances and further undertakings to transfer the copyright to any third parties. Accordingly, during the due diligence process, the liens may also be checked from the registry for the registered IP rights, whereas, for non-registrable IP rights, the acquirer again must trust the documents that are presented by the target.

It is also common practice to require the target to put the IP rights, especially the source codes when software purchases are concerned, on escrow for the period between signing and closing of the deal. Whereas the IP rights essentially do not have a physical form and can be transferred via a written assignment, a contractual duty to hold the IP rights on trust would practically only give rights to compensation if the owner of the IP rights (the target) breaches such obligation, but would not grant any rights to claim the title before the third person who has acquired the said IP rights in goodwill unless the lien is registered (as applicable).

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

The ownership of the copyright belongs to the creator upon creation (either the employee or the contractor in this case) and can only be transferred via a written assignment agreement. However, the employer shall automatically have the power to use the financial rights related to the copyright. Therefore, for employee creations, the due diligence process is limited to assess whether the copyrighted work was created within the course of employment and in close relation to employee's duties (based on the experience he or she gained at the workplace and work carried out at the office). When contractor-created intellectual property is concerned, extra documentation for written assignment shall be sought.

For patentable employee inventions, the Law on Industrial Property and the Regulation on Employee Inventions provide a specific procedure where the employee owns the invention created during the course of employment; however, he or she needs to notify the employer regarding the invention in writing without undue delay. If the employer requests full rights to the invention within four months following the notification, the title to the invention is transferred to the employer as soon as such request is received by the employee. Therefore, the scope of the due diligence shall be to determine if the explained procedure is followed and the title to the invention is dully transferred. The provisions of this regulation are mandatory and may not be altered to the detriment of the employee in the employment contract. This is why the employment contract is reviewed.

Unless otherwise provided under the employee's employment contract, for employee-created registrable designs, the title to the design that the employee has created during the course of employment, as part of his or her duties and in close relation with the know-how he or she acquired at the workplace, belongs to the employer. This is also why the employee's employment contract is reviewed. The question of whether the design was created during the course of his or her employment is assessed as part of the due diligence process.

For contractor-created IP rights, the contracts of work shall be reviewed. An explicit assignment of the IP rights to the target shall be sought. It must be stressed that, under Turkish law, while an undertaking to assign a not yet created copyright is permissible, a future assignment is invalid. In other words, such agreements are not directly enforceable to claim rights to the future works; however, they grant the transferee a compensation claim on the grounds of breach of contract. This is why an assignment after the creation of the work has to be sought during the due diligence process.

In any case, for the registered IP rights, if the target is registered as the owner of the IP rights, the due diligence process is then lighter and may be limited to a possible dispute of ownership between the employee and the employer, or the target and the contractor. For example, regarding both patentable creations and designs, the employer is obliged to make a payment if the employee so requests. Documentation as to such payment may be sought from the target if the relevant IP right is of critical importance for the acquirer.

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?

Regardless of any licence agreements associated with the IP rights concerned the conditions specified under question 3 shall be fulfilled. As a licence agreement only gives the licensee a contractual right, when the underlying IP rights is transferred, the licensee may not have any claims against the acquirer unless the licence agreement was registered at the relevant registry for the IP rights concerned (as applicable). However, even then there are not any further actions to be taken to affect the transfer.

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?

The due diligence process is closely associated with the nature of the proposed transaction. For asset transfers, code scans are customarily provided and technical assistance may be needed during the legal due diligence process once access is granted to code scans to decide the fitness for purpose of the asset, such as the degree of improvement needed for further development and associated costs. When share purchases are concerned, code scans or access to source codes are not generally required, as the copyright shall stay within the target company anyway. However, there may be deal-specific cases where the valuation of the target heavily depends on its software products or services. In this case, access to source code or provision of code scans may still be required as part of the due diligence process.

Further, the scope of the deal is also a concern because requiring access to such delicate material as conducting a due diligence may lead to more transaction costs, as additional non-disclosure agreements may be sought by the target, or additional technical support may be sought by the acquirer to correctly assess the value of software and its fitness for the acquirer.

For third-party codes related to the software in question, the licences between the target and the code owner are generally requested from the target so that the terms of the licence and possible disputes may be evaluated as part of the due diligence process. If the non-disclosure allows the target to grant access to the third-party code, then provision of such may be requested from the target. Regarding open source codes, a list that is encrypted in a target's software is almost always requested from the target. The terms of use for such open source code are then also evaluated to detect possible infringements, with specific focus on whether the target uses such for commercial purposes or the open source platform allows the users to commercialise the open source code provided thereunder.

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

As with other legislations, big data and, therefore, data protection rules, are hot topics in Turkey. That is why, as part of the business model assessment and compliance thereof, they should be considered if the target collects or processes any data (usually customer data) and, accordingly, it should be determined whether the consent of the data subjects are duly obtained or the data is processed in compliance with the legislation. For businesses that deal with artificial intelligence and the internet of things, data processing is of a great importance; when the target's business model includes such technologies, compliance with data protection rules is specifically assessed.

While there are no specific regulations for emerging technologies such as autonomous driving, an overall compliance assessment with the fundamental laws and regulations is still conducted during the due diligence process. For other industries such as banking and finance, where regulatory measures are already in place, the business model of the target is specially studied to decide if the target's products or services are subject to any licensing requirements as per the applicable law. Regarding fintech companies that already have licence to provide services, the scope of the due diligence process often evolves into examining possible infringement of the licence by the target and determination of regulatory requirements to be fulfilled to effect the proposed transaction. For example, subject to thresholds, share transfers of fintech companies shall be notified to or approved by the Banking Regulatory and Supervisory Authority.

Purchase agreement

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

Yes, representations and warranties for intellectual property, technology, cybersecurity and data privacy are commonly used in technology M&A transactions.

Representations and warranties concerning the related intellectual property generally focus on two main subjects: ownership and licensing agreements. These representations and warranties typically include that the target: holds legal title to the IP rights concerned or uses such rights under a duly executed licensing agreement; has only licensed its own IP rights (or sometimes the acquirer seeks rather for a representation that the IP rights has not yet been licensed to any third parties) in keeping with the market conditions and the nature of business life; and has not infringed any third-party IP rights and been party to any such infringement disputes. If the related IP rights are registered, it is also common to include representations that the registration was duly made and remains unchallenged.

Together with these generic representations and warranties, some specific cases are also worth mentioning. For example, when the target is a start-up company, given their appetite for entering into partnerships with industry giants and the asymmetric negotiation power such giants have in these deals, start-up companies have a tendency to accept any terms and conditions imposed on them, even unnecessary undertakings of exclusive licensing or future transfer of IP rights. In these cases, the acquirer usually requires the target to represent and warrant that it does not have any binding undertakings to transfer the title to or issue an exclusive licence to other third parties in whatsoever form. When start-up deals are concerned, another important issue is to make sure that all relevant IP rights belong to the target but not the founders or their employees. Therefore, it is very common to include a representation that the founder or employee, as a rightful IP owner, has duly transferred the title to the IP rights to the target. Another example could concern deals where the business model of the target base on tailoring IP rights (such as software as a service models) for each individual customer. When the target's business is as described, a specific representation indicating each customer product is separately created, does not infringe any IP rights that were previously created (or transferred or exclusively licensed to the customers) and duly documented by the target.

When data privacy issues are concerned, a representation that the target is compliant with the data protection rules is almost always found in any technology M&A dealm as data processing is almost inescapable. What is more delicate here is when the target's business is heavily dependent on data processing activities (such as artificial intelligence and internet-of-things technology, as mentioned under question 11). In these circumstances, more specific requirements that may go beyond the regulatory requirements may be sought, such as a representations that consent to collecting all data to establish the current database is duly obtained and documented, or representations concerning data safety.

Representations and warranties regarding cybersecurity are typically limited to the existence of software, hardware and staff to ensure cybersecurity and that the relevant measures to sustain such are in place.

Update and trends

Considering the crucial role technology and innovation play in economic growth, one of the popular trends in Turkey is setting up sector-specific venture capital funds that intend to invest in innovative projects. In addition to private efforts in the industry, the Turkish government has also initiated an incentive programme that brings the venture capitals and technology transfer offices together to fund more tech-related start-up companies and eventually to create a healthy start-up ecosystem where academics, businessmen and entrepreneurs can better function together. This incentive has boosted and continues to have a reformatory impact on the demand for establishing venture capital funds in Turkey. In terms of most preferred topics that the investors are looking into it is observed that blockchain technology, cryptocurrency, big data, internet of things and artificial intelligence based projects in several sectors, legal technology or regtech projects and information security are on top of the list.

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

When carveout sales are concerned, the IP rights that belong to the carved-out business to be transferred to the acquirer automatically transfers to the acquirer upon execution of the purchase agreements. In effect, there is no transition period in between. For asset sales, the same principle applies. The title to the IP rights transfers immediately at signing without further need of any specific execution necessities. For the avoidance of doubt, it must be stressed that the transfer of registered IP rights, such as trademarks and patents, needs to be registered with the relevant registry to be binding upon third parties. However, the title to the IP rights immediately transfers at signing so that, for the acquirer to start rightfully using the IP rights, no further execution necessities are required. Thus, it is not customary to include such ancillary agreements for these kinds of asset sales. Still, non-transferable and non-exclusive cross-licences may be used as ancillary agreements to asset sales if the acquirer would like to hold the title to the IP rights and allow further developments on the IP rights by the target.

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

To decide whether the below conditions are pre- or post-closing items depend on numerous variables, such as the extent and scope of control that may be gained following the transaction (when the acquirer will have the majority of the shares of the target following the transaction, there is no need to be as specific or strict on post-closing items); risk associated with non-satisfaction of these items (there may be such heavy results upon non-satisfaction of these items that they make become deal-breakers); and the time frame needed to complete such items as requested. Acquirors typically require the items listed below as pre- or post-closing conditions or covenants, depending on the severity of such when the nature of the deal is taken into account:

- transfer of IP rights to the target (almost always a pre-closing item);
- government approval (if applicable, always a pre-closing item);
- competition clearance (if applicable, always a pre-closing item);
- full compliance to a regulation, such as the Data Protection Law, to be attained, including any amendments to merchant or customer contracts, alterations to websites and commercial electronic texts (may either be a pre- or post-closing item depending on the risk associated with non-compliance and the time needed to become fully complaint);
- amendments to employment contracts to reflect employee inventions or creations regulations (almost always a pre-closing item);
- amendments to major deals to clarify a crucial point, such as an undertaking to transfer title to the target's IP rights (may either be a pre- or post-closing item depending on the risk associated with non-compliance and the time needed to negotiate an amendment with the party to the agreement); and
- change-of-control notices or consent to be sent or received, as applicable (usually post-closing items for notices, whereas consent is typically sought before closing takes place).

This list is not conclusive and is brief compared to a technology deal, which may be quite complex; it is prepared only to give the reader an idea of pre- and post-closing items that have become almost market practice in Turkey.

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

Survival periods of representations and warranties concerning intellectual property may be drafted longer than other representations and warranties, but it is not the general practice. That is to say, there must be a specific risk detected during the due diligence process as to the ownership or lawful use of the relevant IP rights for longer periods of indemnification to be sought. For example, when the ownership to the IP rights is disputed, has been previously challenged or is deemed to be subject to ambiguous terms and conditions, then the acquirer may seek longer survival periods for the IP representations and warranties to better offset investment risks. Although the acquirers tend to pursue indefinite terms or a statutory lapse of time periods, in general, survival periods typically last from one to three years.

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?

See question 15. Liabilities for breach of IP representations and warranties are not typically subject to a cap higher than the liability cap for breach of other representations and warranties, provided that there is not any specific risk defined regarding the ownership or lawful use of the relevant IP rights. In general, caps over the liability is defined in relation to the investment amount or the purchase price (an amount between 50 per cent to 150 per cent is typical).

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?

See questions 15 and 16. It is not typical to carve out or deduct liabilities for breach of IP representations from de minimis thresholds or basket clauses, unless there is a specific risk is detected for the breach of IP representations during the due diligence process. If the acquirer has not reflected this risk on the purchase price or the investment amount, then he or she may seek for unlimited liability clauses for IP rights related breaches as well as specific indemnification clauses.

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

Specific indemnities related to intellectual property, data security or privacy matters cannot exactly be deemed as the market practice in Turkey. In general, the definitive agreements include an overall indemnity clause to cover all breaches of representations and warranties. Still, for specific cases, this may be sought by the acquirer. For cases where the target is under the risk of facing an IP or data breach that may cause significant damages or result in regulatory sanctions imposed on the target, the acquirers may require a specific indemnification clause. The common mechanism used to achieve this is essentially a security term. This is more applicable to venture capital investments where the investor is willing to take on such risks to obtain greater yields but would still like to have a safety net so as to not lose higher than the amount of investment. In these cases, the party to provide the security as specific indemnification is usually a start-up company (who, by definition, is not in place to offer a letter of credit or cash collateral). Usually, in such cases, the start-up companies agree to put some portion of their shares on escrow to be released if the risk is realised and the founders cannot indemnify the investors as per the general indemnification rule defined under the investment agreement.

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?

As a general closing condition, the acquirer requires that the representations and warranties are still applicable as of the closing date and that no materially adverse effect is caused during the time passed between the signing and closing date. The materially adverse effect is typically drafted broadly enough to cover any effects over the target's business, financial standing, profits, prospective income and assets; that is to say, it does cover the IP representations and warranties but is not specific. Therefore, the acquirer shall have a walk-away right if a material adverse effect is caused by any acts, omissions, events, circumstances or changes over the related-IP representations and warranties in a manner to degrade the applicability thereof.

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Structuring and legal considerations

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 privacy 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 Registered Designs Act 1949; and
- the UK Data Protection Act 2018.

Certain EU laws having direct effect (at least until Brexit) and, in particular, the General Data Protection Regulation (GDPR) 2016/679, the Trade Mark Regulation 2017/1001 and the Community Designs Regulation 6/2002, are also of significant importance.

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.

Despite the United Kingdom's voluntary merger notification regime, the United Kingdom's Competition and Markets Authority has the power, under the Enterprise Act 2002 (EA), to investigate mergers that meet the jurisdictional thresholds for review for up to four months after closing (or when details become public, whichever is the later). In addition, under the EA, the UK government has the ability to intervene in certain cases, including those that raise possible issues relating to national security.

In June 2018, the government lowered the thresholds at which it could intervene in deals where the target is active in certain categories of technology, namely those relating to computer processing units and quantum technologies. In these cases, the government is able to intervene where the target had turnover of £1 million or more in the United Kingdom in its most recent financial year, if the target alone accounts for a 25 per cent share of supply in the United Kingdom of the sale or purchase of any goods or services, or if the parties' combined share of supply in the United Kingdom of the sale or purchase of any goods or services is 25 per cent or more. If the government intervenes in these cases, it can impose remedies and, in the case of completed deals, ultimately require them to be unwound if found necessary to protect national security interests.

The government is currently consulting on changes to the law, which will widen the scope of its powers to intervene in transactions that potentially raise national security concerns. While the regime will remain voluntary, the government intends to extend its powers to cover, among others, situations when assets are acquired (which may not otherwise be caught by the merger control rules). In addition, in these cases, the government proposes to extend the period for intervention to six months post closing (or, if later, from when details become public). These new rules will only apply to cases raising issues of national security and will cover all sectors, but those involving advanced technologies are likely to come under particular scrutiny. The government will consider both the activities of the target and the identity and activities of the buyer when deciding whether to intervene in cases on national security grounds. To date, the government has intervened in very few cases on national security grounds but expects to deal with around 200 cases per year under the new proposals, of which it expects half to be subject to a detailed review and half of those (ie, around 50) to be subject to remedies.

Note that these proposals are separate to those from the European Commission to introduce a framework for screening foreign direct investment inflows into the EU on grounds of security or public policy.

The United Kingdom's export control regime may also be relevant (primarily governed by the Dual-Use Regulation 428/2009, the Export Control Act 2002 and the Export Control Order 2008) 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.

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. Similar provisions were introduced by section 5 of the Community Design Regulations 2005 in relation to EU Community designs.

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.

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 is 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

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 (see question 5);
- 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 GDPR, in particular as regards its privacy policies, appointment of data processors and data export arrangements;
- vetting the extent and ramifications of any data privacy 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 carveout or asset-purchase transactions, together with the following additional considerations:

- As carveouts 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 post 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 carveout 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.

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 and the European Intellectual Property Office;
- 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; 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.

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; however, it is also possible to gain rights in an unregistered 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 or by a European Patent application designating the United Kingdom, which is a system that should survive Brexit;
- rights in know-how and other confidential information are not registrable;
- design rights (including semiconductor topography rights as a special type of design right) are registrable with the UK IPO, but there is also unregistered design protection 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.

In addition, there are also registered and unregistered IP rights that cover the entire European Union, which, prior to Brexit, includes the United Kingdom. These include EU trademarks and Community design rights (registered) and rights in designs (unregistered). Further, in the future, a new type of patent, the unitary patent, will be available for registration that will cover all EU countries that have ratified the Unified Patent Court Agreement. The United Kingdom has done so, but it remains to be seen if and how the United Kingdom will remain a participant in this system after Brexit.

See questions 4, 5 and 8 for a description of typical due diligence activities in respect of the different types of IP right.

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, 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.

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. There should also ideally 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.

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

Update and trends

One of the most notable trends, besides the strong activities of private equity companies in technology M&A transactions, is the increased involvement of other companies that are not traditional technology companies as buyers in such transactions. The rapid advancement of digitalisation and the disruption driven by software, other IT and connectivity in almost all traditional industries (in particular financial services, healthcare, automotive and consumer electronics) has contributed to this. Obtaining software and IT solutions through acquisition is often the fastest way for such companies to gain or maintain a competitive advantage and to make headway into new business sectors. Particular active areas are fintech, digital health and connected or automated driving.

We have also seen a significantly increased focus on data protection and cybersecurity issues. This is driven by an increased awareness of these issues and, on the legal side, by the recent coming into force of the GDPR and the Network and Information Systems Regulations 2018.

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.

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 detailed in question 8;
- 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 then necessary to review the 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.

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, 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 privacy laws (including, in the United Kingdom, the GDPR and the UK Data Protection Act 2018).

Given the reliance of most emerging technologies, in particular internet of things 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 and IT devices and, in particular, from 'decisions' made by artificial intelligence systems.

Purchase agreement

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 GDPR and other applicable privacy laws, including as regards collection of data, appointment of processors and data export, and lack of regulatory investigations or third-party allegations of non-compliance.

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.

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.

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.

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 case by case. 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 to 25 per cent of the total consideration).

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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, as discussed under question 18.

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, in light of the commencement of GDPR enforcement on 25 May 2018, any known possibility of non-compliance is very likely to give rise to a request for an indemnity by the buyer, owing to the possibility of a large fine and of substantial damage to the business's reputation should any significant breach emerge. Liability for indemnities of any kind, including those that relate to intellectual property and data privacy or security, 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.

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.

United States

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Structuring and legal considerations

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?

In the United States, the primary IP federal statutes implicated by technology M&A transactions are the Patent Act (35 USC section 1 et seq), the Copyright Act (17 USC section 101, et seq), the Lanham (Trademark) Act (15 USC section 1051, et seq), the Defend Trade Secrets Act (18 USC section 1836, et seq), and the Semiconductor Chip Protection (Mask Works) Act (17 USC section 901, et seq). State statutory and common law governing trademarks, trade secrets and contractual rights (including rights under invention assignment and confidentiality agreements and licences) are also typically implicated by technology M&A transactions.

Additionally, there are numerous US federal and state statutes that govern the collection, processing, use and disclosure of data in ways that are more likely to implicate technology M&A transactions than other types of transactions, including laws pertaining to electronic surveillance (eg, the federal Electronic Communications Privacy Act); laws pertaining to data about children under the age of 13 (eg, the federal Children's Online Privacy Protection Act); and laws pertaining to financial technology that require secure development processes (eg, New York State Department of Financial Services Cybersecurity Regulation). Further, cloud service providers (including data centres) that act as third-party processors are often contractually bound to comply with regulatory requirements of their customers, which often include the Health Insurance Portability and Accountability Act of 1996, the Gramm–Leach–Bliley Act, the Sarbanes–Oxley Act, the Defense Federal Acquisition Regulation Supplement and the Family Educational Rights and Privacy Act of 1974.

Investments in sensitive technologies by non-US parties may be subject to review by the Committee on Foreign Investment in the United States (CFIUS). CFIUS is a Treasury Department-led committee that conducts national security reviews of foreign direct investment into the United States. CFIUS conducts a risk-based analysis on an investment based on certain key factors:

- threat: whether the foreign investor has the capability or intent to exploit vulnerability or cause harm;
- vulnerability: the national security risks associated with the US target, including the sensitivity of its technologies; and
- consequence: the consequences of the combination of the threat and vulnerability.

The review process may result in transactions being suspended, blocked or subject to mitigation, even after closing. Parties to a transaction may file a joint voluntary notice to obtain formal clearance of a transaction and prevent CFIUS from revisiting the transaction. New CFIUS reform legislation recently passed and will expand CFIUS's jurisdiction and provide a short-form 'declaration' process – which may be mandatory in certain circumstances – that may enable quicker resolution in certain cases.

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

The US government has march-in rights with respect to inventions conceived or first actually reduced to practice in the performance of work under federally funded research and development contracts with small business firms or non-profit organisations (subject inventions) under the Bayh–Dole Act (35 USC sections 200-212). Under the Bayh–Dole Act, if the contracting organisation elects to retain title to a subject invention for which it has obtained assignment, it is subject to various obligations, including granting the applicable federal agency a non-exclusive, non-transferable, irrevocable and paid-up licence to practise or have practised any subject invention throughout the world. In addition, the federal agency under whose funding agreement the subject invention was made has the right to require that the contractor, assignee or exclusive licensee to a subject invention grant a licence to a third party in any field of use. If the party refuses to do so, the federal agency may grant the licence itself. The Act specifies that the US government may exercise such march-in rights if it determines that such action is necessary under the following circumstances:

- the contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve the practical application of the subject invention in such field of use;
- to alleviate public health or safety needs not reasonably satisfied by the contractor, assignee or licensee;
- to meet requirements for public use specified in federal regulations and such requirements are not reasonably satisfied by the contractor, assignee or licensee; or
- if the agreement required by 35 USC section 204 (preference for US industry) has not been obtained or waived or because an exclusive licensee of the subject invention in the United States is in breach of its obligation thereunder to manufacture substantially in the United States any products embodying the subject invention or produced through the use of the subject invention.

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

Although US patent rights are protected under federal law, legal title in patents after the initial owner or owners is generally determined under applicable state law. For patent applications filed before 16 September 2012, ownership initially vests in the named inventors. For patent applications filed on or after 16 September 2012, the original applicant is presumed to be the initial owner. Ownership of a patent or patent application is assignable by written instrument, which is governed by applicable state contract law. Under the Patent Act, any assignment, grant or conveyance of a patent shall be void as against any subsequent purchaser or mortgagee for valuable consideration, without notice, unless it is recorded in the US Patent and Trademark Office (USPTO) within three months from its date or prior to the date of such subsequent purchase or mortgage.

Copyrights

Although US copyrights are also protected under federal law, legal title in copyrights after the initial owner or owners is generally determined under applicable state law. Copyright in a work initially vests in the author or authors of the work. If the work is a 'work-made-for-hire', the employer or other person for whom the work was prepared is considered the author (and unless otherwise expressly agreed in a signed written instrument, owns the copyright in the work). Ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law. In addition, for works other than works made for hire, any assignments or licences of copyrights executed by the author on or after 1 January 1978 (other than by will) are subject to termination under certain conditions, including death of the author. A transfer of copyright ownership, other than by operation of law, is not valid unless in writing and signed by the owner of the rights conveyed (or duly authorised agents). Although recording of any transfer of rights is not mandatory, proper recording of a document in the US Copyright Office provides constructive notice of such transfer. Between two conflicting transfers, the one executed first will prevail if it is properly recorded within one month after its execution in the United States (or within two months if outside of the United States), or at any time before proper recording of the later transfer. Otherwise, the later transfer prevails if it is properly recorded first, taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties and without notice of the earlier transfer.

Trademarks

The United States is a 'first to use' jurisdiction and ownership of a trademark in the United States inures in the first party to use a trademark in commerce in connection with the relevant goods or services in the relevant geographic area. Although registration is not required, trademarks can be registered federally with the USPTO (if the mark is used in interstate commerce) or with state trademark registries. Federal trademark registration on the principal register provides various benefits, including evidence of validity and ownership of a mark, the ability to prevent others from using confusingly similar marks across the United States, the right to use the registered ® symbol, and statutory remedies for federal trademark infringement claims. Assignments of trademarks must be by written, duly executed instruments and any assignment of a trademark must include the goodwill of the business in which the mark is used. Moreover, intent-to-use trademark applications cannot be assigned before a statement or amendment to allege use has been filed with the USPTO, except to a successor to the applicant's business, or portion of the business to which the mark pertains, if that business is ongoing and existing. A trademark assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the requisite assignment information is recorded in the USPTO within three months after the date of the assignment or prior to the subsequent purchase.

Trade secrets

Under the Defend Trade Secrets Act and most state laws, the owner of a trade secret is the person or entity in whom or in which rightful legal or equitable title to, or licence in, the trade secret is reposed. Thus, the trade secret owner is the person or entity who knows the trade secret information and has taken reasonable measures to keep such information secret. Transfer of ownership of a trade secret is subject to state contract law since the assignment of a trade secret technically requires both transfer of the knowledge of the trade secret as well as obligations of the assignor not to use or disclose (or permit the use or disclosure of) the trade secret post-assignment.

Mask works

Unlike copyrights, registration of mask works in the Copyright Office is required for protection. Ownership of a mask work originally vests in the person who created the mask work, except that if a mask work is made within the scope of a person's employment, the owner of the mask work is the person's employer. Although US mask work rights are protected under federal law, legal title in mask works after the initial owner or owners is generally determined under applicable state law. The owner of exclusive rights in a mask work may transfer all of those rights by any written instrument signed by such owner or a duly authorised agent of the owner. A mask work transfer shall be void against a subsequent transfer that is made for a valuable consideration and without notice of the first transfer unless the first transfer is recorded in the Copyright Office within three months after the date on which it is executed, but in no case later than the day before the date of such subsequent transfer.

Domain names

Domain names are typically registered with accredited registrars or through registration services. Registrants typically provide the following information when registering a domain name: the domain name, registrant name, servers assigned to the domain name, and billing, administrative and technical contacts. Domain name registrars have different procedures for transferring ownership of domain names. Typically, domain name transfers involve terminating the existing registrant's contract with the registrar and creating a new contract between the new registrant and the registrar for the right to use the domain name being transferred. Parties may enter into agreements to memorialise the conditions of the domain name transfer.

Due diligence

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?

Typical areas of intellectual property and technology due diligence undertaken in the United States with respect to technology M&A transactions include:

- identifying all registrations, issuances and applications for IP assets owned by the target and confirming the status, lien status, chain-of-title, expiration date (if applicable), scope of protection, and ownership thereof;
- identifying all other IP assets owned or used by the target and confirming the ownership thereof, any restrictions thereon, and the target's scope of rights therein;
- reviewing and analysing the target's agreements with past and present employees, contractors, and consultants with respect to the creation and ownership of IP assets and the use and disclosure of trade secrets and other confidential information;
- identifying and determining the scope of inbound and outbound grants of IP rights granted by or to the target;
- reviewing and analysing all other IP-related agreements (or IP provisions in agreements), including research and development agreements, consulting agreement, manufacturing, supply, and distribution agreements, settlement agreements, and IP licensing and assignment agreements;
- determining and analysing the target's process for IP clearance, protection, and enforcement and for protecting trade secrets and confidential information;
- determining and analysing any past, present, or threatened IP-related claims or disputes involving the target company, such as infringement actions, cease-and-desist letters, requests for IP-related indemnification, disputes with past and present employees or contractors, and claims for remuneration for the creation of intellectual property;
- reviewing and analysing the target's processes and procedures for developing software code, including identifying open source or copyleft code, reviewing source code scans, and identifying third-party access to code;
- requesting and analysing agreements and rights with respect to information technology (IT) rights, assets and equipment;
- reviewing the target's implementation of commercially reasonable IT programs for known material gaps and vulnerabilities to assess alignment with industry standards;
- reviewing the target's compliance with privacy and data protection laws, contractual obligations and company policies;
- vetting the extent and ramifications of any data privacy breaches or security incidents; and
- determining whether and what rights to use personal data will transfer to the buyer.

Although the due diligence process for mergers and share acquisitions and carveouts and asset purchases are similar, there are several key differences. Because carveouts and asset purchase transactions require the assignment and transfer of IP rights from the seller to the buyer, the buyer should confirm that all desired IP assets may be transferred (and are properly transferred) under applicable law. For example, intent-to-use trademark applications may only be assigned under certain circumstances and assignments of trade secrets should be coupled with covenants of the seller not to use or disclose such trade secrets post-closing. Moreover, the buyer should ensure that any shared rights in intellectual property are properly allocated or cross-licensed between the parties post-closing.

If source code or data is being transferred, the right of seller to transfer any third-party code (including open source) or third-party data (including personally identifiable information) should be properly vetted.

The buyer should review material IP and IT contracts to determine whether they include change of control provisions or anti-assignment provisions triggered by the contemplated transaction. In the United States, the rules governing transferability of IP licences where a contract is silent on transferability varies by applicable state law.

If a carveout or asset purchase transaction does not include all employees or IP assets relevant to the purchased business, the buyer should perform sufficient diligence to confirm that there is no 'key man' risk, whether the seller will need to give or receive any transition services, whether any IT systems will need to be migrated or separated, and whether the buyer will be able to use, maintain and exploit the purchased IP assets post-closing.

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?

Counsel for the buyer typically conducts:

- searches of publicly available databases (including the USPTO, the US Copyright Office, any relevant state trademark office databases and domain name registries) to identify and confirm the status, chain-of-title, expiration date (if applicable), scope of protection, and ownership of the registered intellectual property purportedly owned by the seller;
- trademark clearance and availability searches may be performed to identify potential third-party trademark rights and 'freedom to operate' searches may be performed to identify potentially problematic patents;
- Uniform Commercial Code (UCC) lien searches and searches of the USPTO and the US Copyright Office assignment databases to determine if there are any active and unreleased liens or security interests recorded against the seller's IP assets;
- searches of public US court dockets to determine whether the seller has been involved in any litigation related to its IP assets;
- searches of websites owned by the target to analyse privacy policies, terms of service and other publicly available information regarding the target; and
- if the target is a public company, searches for public filings of material contracts and other public disclosures, such as Annual Reports and filings with the Securities and Exchange Commission (eg, 10Ks, 10Qs, etc.).

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 States:

- patents are registrable with the USPTO and issuance of a patent is required for patent protection;
- copyrights are registrable with the US Copyright Office but registration of a copyright is not required;
- trademarks are registrable with the USPTO and with state or local trademark offices but registration of a trademark is not required;
- trade secrets are not registrable;
- mask works are registrable with the US Copyright Office and registration is required within two years after the date on which the mask work is first commercially exploited; and
- domain names are registrable with domain name registrars and registration is required.

With respect to registerable intellectual property, the buyer should conduct the searches described in question 5. With respect to trade secrets, know-how, and other unregistered intellectual property, the buyers should confirm ownership thereof by the seller and with respect to trade secrets, that the seller has taken reasonable steps necessary to maintain the confidentiality thereof.

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?

Liens and security interests can be granted on IP and technology assets in the US under article 9 of the UCC (as enacted by each state and the District of Columbia), which governs security interests in 'general intangibles' (including intellectual property) unless article 9 is pre-empted by US statute, regulation or treaty.

Because the Patent Act and Lanham (Trademark) Act do not expressly pre-empt article 9 of the UCC, US courts have generally held that security interests in US patents and patent applications and federal trademark registrations and applications (as well as other unregistered intellectual property) are perfected by the filing a UCC-1 financing statement with the applicable state where the owner of the IP asset is located and any release or termination of such security interest would be filed with such state. It is also prudent and considered a matter of good practice to file the security agreement (and any release or termination thereof) with the USPTO to ensure notice to subsequent good faith purchasers and mortgagees. In contrast, the Copyright Act pre-empts article 9 of the UCC. Accordingly, security interests in registered US copyrights (and applications therefor) are perfected by filing security agreements with the US Copyright Office. Any release or termination thereof should similarly be filed with the US Copyright Office. Turnaround time for UCC filings can vary by state and type of submission but can be instantaneous (for electronic filings) or may take up to 30 days (for paper forms). Turnaround time for the USPTO and US Copyright Office depends on processing lag time but a filing receipt is typically provided within a day for electronic filings.

Buyers typically conduct due diligence on liens or security interests by performing UCC lien searches as well as searches of the USPTO and the US Copyright Office databases to determine whether there are any active and unreleased liens or security interests recorded against the target's IP assets. If a financing is being paid off in connection with the contemplated transaction, the parties typically agree that any security interests securing such financing would be released at closing.

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

The due diligence typically undertaken with respect to employee-created and contractor-created intellectual property and technology in the context of US technology M&A transactions involves analysing employment or contractor-related agreements under applicable governing law to determine whether the target company or employee or contractor owns the employee or contractor-created intellectual property and whether such intellectual property is material to the target company. The buyer should ensure that the agreements include:

- a provision stating that all copyrightable work created by the employee or contractor is a 'work made for hire' under the Copyright Act;
- a present assignment of (and future agreement to assign) all work product and intellectual property that does not qualify as a work made for hire;
- a provision obligating the employee or contractor to cooperate to perform all acts and execute and deliver all documents necessary to effect and perfect all work product and IP ownership;
- confidentiality provisions governing the use and disclosure of trade secrets and other confidential information;
- if any trade secrets are disclosed to the employee or contractor, the whistle-blower notice required under the Defend Trade Secrets Act for agreements executed on or after 12 May 2016;
- sufficient licences under any background intellectual property owned by the employee or contractor that is used or embodied in the work product or intellectual property created by such employee or contractor; and
- representations and warranties that all work product and intellectual property is original and does not infringe, misappropriate or otherwise violate any third-party IP rights.

In addition, the laws of several states (including California) restrict the scope of employee inventions that may be subject to assignment and require that certain statutory notices be included in agreements purporting to assign employee inventions.

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 US law, the express language of the applicable IP licence agreement generally governs whether the licence is assignable. If the agreement is silent or ambiguous with respect to assignability, the analysis depends on governing law, the nature of the licensed intellectual property, whether the licence is exclusive or non-exclusive, whether the contemplated transaction constitutes an assignment under applicable law, and other considerations.

Typically, if an IP licence is silent or ambiguous with respect to assignability, then US courts have generally found that, absent countervailing circumstances that would result in material adverse consequences to the licensee (eg, the licence grant is coupled with various obligations of the licensor to provide assistance or other services or where the assignee is a competitor of the licensee), the licensor has the right to assign without the licensee's consent; and the licensee does not have the right to assign without the licensor's consent.

Non-exclusive licences that are silent regarding assignability have generally been found by US courts to be non-assignable by the licensee without the licensor's consent. However, courts are split on whether exclusive licences should be treated similarly. Although several courts have treated exclusive licences in the same manner as non-exclusive licences with respect to assignability, some courts have held that exclusive licensees should have rights commensurate to the owner of the intellectual property and therefore the right to assign without consent of the licensor because exclusive licences may be considered to be transfers of all rights (particularly with respect to copyrights).

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 who created the source code (ie, employees or contractors) and reviewing any agreements governing the development of such source code;
- determining whether and how the software is used, accessed, stored, licensed or distributed to third parties (including whether it is subject to any source code escrow agreements), including reviewing any agreements governing the foregoing;
- confirming the confidentiality measures undertaken to protect any proprietary code and unauthorised access thereto or disclosure thereof; and
- reviewing or vetting any open source code policies and procedures (including reviewing source code scans).

Depending on the materiality of the software code at issue, nature of the transaction, and target industry, targets may provide code scans in the course of due diligence for technology M&A transactions in the United States.

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

Artificial intelligence

Artificial intelligence (AI) algorithms typically 'learn' from broad and high-quality data sets, which may be subject to copyright protection. It is important to assess whether an AI system has the right to use, access or reproduce the copyrighted works within an input data set and whether any resulting technology could therefore be deemed to be an unauthorised 'derivative work'.

Because AI systems may be capable of producing more complex and innovative products and services, on the one hand, it is important to consider how inventorship and authorship will be determined where intellectual property results from an AI system. For example, US courts may decline to grant patent or copyright protection to inventions or works created by AI systems (rather than by humans). On the other hand, if a target uses an AI system that makes decisions resulting in damage or harm, it is unclear how liability would be allocated.

Additionally, with respect to privacy and data security, due diligence undertaken with respect to AI is typically in the area of secure development lifecycle of hardware and software, including analysing implementation of privacy and security by design and by default.

Internet of things

Internet of things (IoT) relates to connected devices that are capable of collecting and analysing massive amounts of data and inherently gives rise to legal concerns around consent, privacy, security and discrimination. It is important to consider whether the data collected by an IoT device is personal data, and if so, whether the persons about whom such data is collected have given sufficient consent to the collection and analysis thereof. Moreover, to the extent that such data includes health, financial or other sensitive information, it is important to understand what rights the relevant person has in such data and whether it is subject to security measures sufficient to prevent its unauthorised use and disclosure.

Autonomous driving or advanced driver-assisted systems

Autonomous driving or advanced driver-assisted systems (ADAS) may incorporate and rely upon AI and connected devices (ie, IoT) technology; therefore, such systems may be subject to the same unique legal considerations discussed above with respect to IoT and AI. Moreover, such systems incorporate numerous other types of technologies, such as global positioning systems (GPS), light detecting and ranging (LIDAR), telecommunications, data analytics and image processing. Accordingly, purchasers should conduct thorough due diligence to ensure that ADAS technology being acquired is not infringing or misappropriating third-party IP rights.

Purchase agreement

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

Buyers of technology companies may require extensive IP representations and warranties, including:

- scheduling of all IP registrations and pending applications, and all material IP and IT contracts (typically included as part of the 'material contracts' representation);
- sole ownership of intellectual property purported to be owned by the target and ownership or the valid right to use all other intellectual property used in the target's business, in each case, free and clear of all encumbrances (other than permitted encumbrances);
- no infringement, misappropriation or other violation of third-party IP rights by the target (this representation may be qualified by knowledge), and of the target's IP rights by any third party (this representation is typically qualified by knowledge);
- validity, enforceability and subsistence of the target's intellectual property;
- no claims or actions asserted by or against the target alleging any infringement, misappropriation or other violation of IP rights, or challenging the ownership, use, validity or enforceability of the target's intellectual property;
- reasonable efforts to protect trade secrets and other confidential information;
- due execution of invention assignment and confidentiality agreements;
- sufficiency of IP assets;
- no adverse effect on IP rights arising from the consummation of the proposed transaction;
- no outstanding governmental orders affecting the target's intellectual property;
- no contribution of resources, facilities, funding or other matters by any governmental entity, university or similar public institution; and
- no unauthorised access to or disclosure of source code, compliance with all open source and other third-party code licences, and no problematic use of copyleft or viral code.

Standard IT, cybersecurity, and data privacy representations include:

- ownership and right to use all material IT assets;
- implementation of commercially reasonable information security programmes and reasonable efforts to protect the confidentiality, integrity and security of IT systems;
- compliance with privacy and data protection laws, contractual obligations and company policies;
- adequate third-party vendor privacy protections;
- continued ability to use personal data upon closing;

- sufficiency, good working order and good working condition of IT systems;
- no disabling codes, Trojan horses, worms, trap doors, back doors or other contaminants in the target's products or IT systems;
- implementation of reasonable disaster recovery and business continuity plans;
- no failure, security breach, material interruption or disruption, loss, or unauthorised access to or use of any IT systems or any business sensitive information or personal data; and
- no data breach notifications required or provided, and no data breach claims or inquiries made against the target.

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

Ancillary agreements that are customary in a technology or IP-focused carveout or asset sale in the United States include the following:
- An asset sale is typically effected by means of a bill of sale and assignment and assumption agreement for the purchased assets, which generally transfers ownership in technology, products, equipment, other personal property, real property and agreements.
- To the extent that assignments of any IP registrations or applications may be effected, short-form IP assignments are typically executed for purposes of recording such assignments.
- Transitional trademark licences are typically executed if the seller will retain certain marks used by or in connection with the transferred business or assets and the buyer needs a period of time post-closing to wind down use of the seller's marks and transition to other marks.

Other post-closing licence agreements may be executed if one party acquires or retains intellectual property in which the other party will continue to have rights to use post-closing. The licence may take multiple forms, depending on how the transfer of intellectual property is structured. For example, instead of acquiring intellectual property outright, the buyer may take an exclusive licence from the seller (sometimes limited to a specific field of use). Where the buyer acquires the intellectual property outright, the seller may request a licence back from the buyer (for use other than in connection with the business being sold). In addition, if the purchased IP assets are transferred based on a 'used' or 'primarily used' standard, there may be post-closing cross-licences of intellectual property between the seller and buyer.

Transition services agreements are commonly entered into where the parties need time to transition functions (such as IT systems and back office functions) from seller to buyer.

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

Pre-closing conditions or covenants of the seller may include:
- interim operating covenants, such as:
  - prohibitions on granting any licences, covenants not to assert or other rights in intellectual property to a third party, and on abandoning any IP rights or allowing IP rights to lapse (with negotiated carveouts); and
  - prohibitions on entering into, modifying or terminating any IP- or IT-related agreement (with negotiated carveouts);
- requirements that the target obtain and provide:
  - third-party consents to change of control or assignment under material IP- or IT-related agreements with third parties;
  - amendments to material IP or IT contracts as may be required to successfully integrate the target into buyer's business;
  - settlements or releases of outstanding adverse IP claims or actions; and
  - termination of certain IP contracts as may be requested by buyer (in merger and stock purchase transactions);
- open source remediation (updating or replacing software to ensure compliance with open source licences and to eliminate potential inadvertent grants of open source licences to third parties); and
- obtaining invention and IP assignments and confidentiality agreements from former and current employees and contractors (if such assignments were not previously obtained, if existing assignments were deficient or to correct chain-of-title issues).

Update and trends

As they compete with private equity funds in auctions of technology companies, strategic technology buyers are increasingly being asked to purchase representations and warranties insurance and forego the ability to sue sellers for (most of the) damages for breach of representations. Representations and warranties insurance has long been a common feature in private equity M&A. In a representations and warranties insurance deal, sellers may have no liability for breaches of representations and warranties, or may retain a small amount of liability (usually no more than 1 per cent of the purchase price); and for any losses in excess of those amounts, the buyer must look solely to the insurance policy for recovery.

This structure alters the trajectory of negotiations in a technology acquisition. Instead of pushing for higher liability caps for breaches of IP representations, the buyer simply purchases its desired amount of coverage from the insurer. To form the basis of claims under the insurance policy, the buyer will insist on fulsome IP and other representations. Sellers are more likely to accept buyers' IP representations as is, because sellers will either have no liability or will retain only a small amount of liability, for breach of representations and warranties.

Post-closing conditions or covenants of the seller may include:
- assisting the buyer with effecting and recording short-form IP assignments with the USPTO, US Copyright Office, relevant domain name registrars and any state IP offices;
- agreeing to 'wrong pockets' obligations (eg, whereby each party agrees to promptly and without any further consideration transfer to the other party any assets that were inadvertently improperly allocated to such party);
- granting post-closing transitional trademark licence agreements for any retained trademarks and licence (or cross-licence) agreements for any shared intellectual property; and
- providing transition services to help transition the business to the buyer's IT systems.

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

Acquirers of tech businesses may request the ability to sue for breach of IP representations for an extended period following closing (eg, three to six years). While there is no statute of limitations for filing a patent infringement suit in the United States, a six-year survival period would correspond to the time period for recovering monetary damages for patent infringement. Copyright infringement suits must typically be filed within three years after the infringement claim accrues. Federal trademark law does not specify a statute of limitations for filing trademark infringement suits so the time limit varies by state. The Defend Trade Secrets Act includes a three-year statute of limitations but state laws may vary. Ultimately, the survival period for IP representations depends on negotiations between the parties.

To provide some context, for general or non-fundamental representations (eg, financial statements), the survival period may be much shorter (eg, one or two years). For tax matters, the survival period may expire 30 to 90 days following the expiration of applicable statutes of limitations. For fundamental representations (eg, title to assets in an asset deal, title to shares in a share sale or due authorisation), buyers will generally request that the survival period last indefinitely, or for the maximum period available under applicable law.

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?

In a technology M&A transaction, buyers will often request a liability cap for the breach of IP representations that exceeds the liability cap for non-fundamental representations (in a non-technology M&A transaction, this is less common). However, this may be the subject of heavy negotiations between the parties.

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?

This is also the subject of negotiation. In some cases, the cap on liabilities for breach of IP representations may be subject to the same de minimis thresholds, baskets, deductibles or other limitations on recovery applicable to non-fundamental representations, but this point will be considered together with the other negotiated points described above.

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

The parties may include specific indemnities for matters that were disclosed in due diligence (eg, potential claims by third parties related to patent infringement or trade secret misappropriation). Specific indemnities are typically not subject to de minimis thresholds, baskets or deductibles, but may be subject to a negotiated liability cap (eg, the purchase price or some other agreed amount).

In an asset purchase agreement, liability for transferred or retained liabilities is typically not subject to limitations on recovery.

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?

Buyers and sellers will negotiate the extent to which IP representations are brought down subject to materiality qualifiers at closing.

In the most buyer-friendly formulation, a buyer may require that IP representations be true and correct in all respects as of the closing (without materiality qualifiers). Sellers may view this as reducing certainty of closing, in particular where there are more than a few days between signing and closing.

An alternative formulation is for a limited subset of the IP representations and warranties (such as sufficiency of IP assets or non-infringement) to be brought down subject to a materiality qualifier, while the other IP representations are brought down subject to a no material adverse effect qualifier.

In the most seller-friendly formulation, all of the IP representations may be brought down at closing subject to a 'no material adverse effect' qualifier. 'Material adverse effect' is an exceedingly difficult threshold to meet and effectively requires the buyer to close even if material breaches are discovered between signing and closing (as they do not meet the 'material adverse effect' threshold).

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