Technology M&A

Contributing editors
Arlene Arin Hahn and Jason Rabbitt-Tomita

2019

GETTING THE DEAL THROUGH

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White & Case LLP

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Preface

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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
October 2018

Czech Republic

Jan Andruško
White & Case LLP

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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