

## Inside M&A - September/October 2011

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### Selecting a Company Name: A Trademark Lawyer's Perspective

by Jennifer M. Mikulina

If you are planning to select a new company name for company operations after a transaction closes, checking the Secretary of State records is not the only step necessary to confirm that the proposed name is available. A company's name is often its most important brand, and it is advisable to enlist the assistance of a trademark lawyer in order to assess the risk of a third-party challenge and to determine if the new name is available for federal trademark or service mark registration.

Obtaining a federal trademark registration for the new company name provides a number of benefits that reach far beyond what is provided by a Secretary of State company name registration. The advantages of registering a trademark on the Principal Register at the U.S. Patent and Trademark Office include the following:

- Public notice of the registrant's ownership claim
- A legal presumption of ownership of the mark and the exclusive right to use the mark nationwide (in the U.S.) on or in connection with the goods/services listed in the registration
- The ability to bring an action concerning the mark in federal court
- The use of the U.S. registration as a basis to obtain registration in foreign countries
- The use of the U.S. registration as a basis for certain domain name registration challenges
- The ability to record the U.S. registration with the U.S. Customs and Border Protection Service to prevent importation of infringing foreign goods
- The right to use the federal registration symbol (®)
- Listing in the U.S. Patent and Trademark Office's online databases

Even filing a trademark application at the U.S. Patent and Trademark Office can be valuable, because pending applications appear in trademark searches and may deter third-party use of similar marks.

### **1. Initial Screening Search for Trademark Registrations or Pending Trademark Applications Identical to the Proposed Name**

Trademark counsel can quickly conduct and review an initial trademark “knock-out” or “screening” search of the U.S. Patent and Trademark Office database to see if any trademark registrations or pending applications exist for marks that are identical to the proposed name(s). An existing registration or pending application for a mark that is identical to the proposed name may prevent use of the name, and this preliminary search will determine if it is necessary to go back to the drawing board at an early stage, when there is still time to develop and run searches for alternative names. If it is possible to provide a list of several potential names to screen, trademark counsel can rank the risk associated with each one based on these preliminary search results.

### **2. Internet Screening Searches for Common Law Rights in the Proposed Name**

A third party may have rights in a name, even though the name is not registered as a mark with the U.S. Patent and Trademark Office, although these rights are limited to the area in which the third party operates. Such marks are called “common law” marks. Finding common law use of a name that is identical, or arguably similar, to the proposed new name is not necessarily a “show-stopper,” but does require careful consideration. Therefore, in addition to conducting initial screening searches in the U.S. Patent and Trademark Office database, quick internet searches may be helpful for identifying third parties that may have priority in a particular name. It is frequently difficult to efficiently review internet searches, however, given the number of irrelevant results that may appear in the search results.

### **3. Review of a Comprehensive Trademark Search Report to Assess the Availability and Registrability of the Proposed Name**

If the results of these screening searches are clear, the next step is to review a comprehensive trademark search report, which will provide a better assessment of whether (a) the proposed name is available for use, (b) potential third-party challenges might arise and (c) potential obstacles to federal registration exist. Trademark counsel order comprehensive search reports, which are typically several hundred pages long, from professional service providers that compile results from sophisticated searches for identical and arguably similar marks and company names in a number of databases, including the U.S. Patent and Trademark Office database, various business directories and internet searches. A comprehensive trademark search report includes references to common law marks and business names because, as noted above, unregistered marks pose a risk in the geographic area in which the owner operates. Comprehensive trademark search reports also include sophisticated web searches and information on

domain name registrations that contain terms similar or identical to the proposed name. In other words, screening searches focus only on identical matches in the U.S. Patent and Trademark Office's database, while the comprehensive search report will include similar marks and references to companies that may have common law rights in a mark. Reviewing a comprehensive search report gives the buyer a much better basis to assess the risk associated with the use and registration of the proposed mark.

When evaluating the results in a comprehensive trademark search report, a trademark lawyer will assess the references from several different angles. One angle is the strength of the mark—if a number of marks in the report share the same terms as the proposed mark, this may indicate that the proposed mark is weak. Weak marks may be difficult to protect, which may favor a new company name that will coexist with other weak marks, but this may also make it difficult to enforce rights in the mark against third parties.

Lawyers will also consider whether a likelihood of confusion will exist between the proposed mark and prior marks. Likelihood of confusion is the basis for trademark infringement, so lawyers reviewing search reports typically consider variations of the likelihood of confusion factors used by the courts. These factors include the following:

- The similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression
- The similarity or dissimilarity and nature of the goods or services as described in an application or registration in connection with which a prior mark is in use
- The similarity or dissimilarity of established, likely to continue trade channels
- The condition under which and buyers to whom sales are made, *i.e.*, "impulse" versus careful, sophisticated purchasing
- The fame of the prior mark (sales, advertising, length of use)
- The number and nature of similar marks in use on similar goods
- The nature and extent of any actual confusion
- The length of time during and conditions under which there has been concurrent use without evidence of actual confusion
- The variety of goods on which a mark is or is not used (house mark, "family" mark, product mark)
- The market interface between applicant and the owner of a prior mark (whether an agreement between the two parties exists as to coexistence; whether the applicant has acquired the mark through assignment;

whether laches or estoppel is attributable to the owner of the prior mark, which may be indicative of a lack of confusion)

- The extent to which the applicant has a right to exclude others from use of its mark on its goods
- The extent of potential confusion, *i.e.*, whether *de minimus* or substantial
- Any other established fact probative of the effect of use

In order to best evaluate each of the likelihood of confusion factors, one or more investigations may be necessary. There are reputable private investigators who specialize in trademark matters—determining the date of first use of a mark, whether use of the mark is limited to a particular geographic region and/or certain goods and services, and whether a mark is actually in use. In general, use of a mark is necessary to have trademark rights, so an investigation may reveal that a registered mark is no longer in use and therefore does not pose a significant threat to the use of the proposed mark.

No search is perfect, and there is always a risk that a third party will come out of nowhere claiming it has prior rights in a name/trademark, but following these steps should provide enough information to make an educated business decision about the viability of a proposed name and the potential third-party risk involved.

## Employee Rights When Buying Parts of an Insolvent Company in Germany

by Paul Melot de Beauregard

Employee rights issues arising from M&A transactions in Germany can be difficult to navigate. Compared to the United States and most other regions, Germany has a high level of employee protection, resulting from a number of statutes which put multiple layers of protection over an employment relationship. While employee rights issues arising from M&A transactions in Germany may be difficult to oversee, they rarely deter companies from pursuing a transaction; however, employee issues play a major role in most acquisitions and carve out situations, so understanding the nuances of the German employee protection laws can help to ensure a smooth transaction.

### High Level of Employee Protection

German statutory law allows for a maximum of seven months notice period, and collective bargaining agreements may even go beyond that and completely exclude all terminations that are not for cause. German insolvency law cuts this strictly down, which can actually lead to a much smoother transition in insolvency situations. The maximum notice period for an employee of an insolvent company is three months, which allows a speedy reduction in workforce.

Moreover, the salary of employees is secured by the Federal Employment Agency (*Bundesagentur für Arbeit*) for a period of three months before insolvency is declared by the competent court. This ensures that employees work throughout the critical final stage of a business. Under certain circumstances, operational pension entitlements are taken over by a nationwide trust to ensure that employees do not lose them. As a result, an insolvent business would not bear the burden of such claims.

### **Shorter Notice Period and Additional Funding**

Under German insolvency law, an employee's options to defend himself or herself against a termination are reduced. For companies with more than 10 employees, terminations are only allowed if they can be legally justified. The law explicitly states the reasons that might be used to justify a termination. In case of a reduction in force, the reason is business related. The conditions for an employer to prove such business-related reasons in court are very high. The conditions are much lower, however, in the case of an insolvency, because the burden of proof is transferred partially to the employee and the scope of court review is restricted.

Collective rights are also subject to important modifications. Most companies in Germany with more than 50 employees have "works councils." These bodies represent the workforce and are subject to extensive consultation and negotiation rights. Under normal conditions, where a works council exists, the close of a company or its parts would require a social plan (among other things). Such social plans provide for financial compensation for those employees who are terminated. The severance payments could amount in total to a significant part of the overall value of the company. It sometimes takes several months until the parties agree on a social plan. During this time, the company cannot execute any reductions in workforce or take any other measures in connection with the close-down.

In insolvency situations, the fund from which such severances are paid is strictly reduced. The parameters are as follows:

- The maximum severance is 2.5 months' salary for the individual employee.
- The overall amount of the severances shall not exceed one-third of the funds available for all creditors of the company.

These parameters not only reduce the financial responsibilities of the company, they allow the negotiations with the works council to take only a few sessions and be closed within days.

## Reduction of Consultation Rights of the Works Council

If agreements that provide for benefits, such as annual payments or capital-building payments (*vermögenswirksame Leistungen*), are in place with the works council, such agreements can be re-negotiated and terminated with a notice period of three months.

Additionally, the German Act on Insolvency (*Insolvenzordnung*) provides for significant relief with regard to negotiation procedures with works councils, which can often be very time-consuming. The German Act on Insolvency significantly reduces negotiation procedures by imposing time limits. The company is in a position to involve the competent courts much earlier in the process and, most of the time, the courts rule in favor of a potential acquirer. Thus, the agreement of the works council can be replaced by the agreement of the competent court.

During the insolvency procedure, an insolvency administrator manages the company. Given the legal specifics mentioned above, it is common practice for an insolvency administrator to work closely with a potential acquirer to shape the business or the parts of it that are to be sold. As soon as the business or its parts transfer to the acquirer, all legal privileges that are connected with the status of the insolvent company are gone.

## Tailor-Made Solutions

The major issue in this regard is to care for the risk of a “transfer of undertaking” according to the respective European and German legislation. Such transfer of undertaking would result in an automatic transfer of the employees who are attributed to this particular part of the company. Because such transfer cannot be contracted out, it is important that the insolvent company or its part have the necessary structure in place prior to the acquisition.

Foreign acquirers are rarely aware of the significant chances that accompany insolvency of a subsidiary and/or an affiliated company. If such situation takes place, the management of an acquiring company should receive information in regard to potential legal implications.

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