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IP PITFALLS IN TECH M&A TRANSACTIONS IN EUROPE

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Technology and IP-driven deals accounted for over 30 percent of M&A deal volume in Europe in 2014.[1] This trend is bound to continue, with many deals involving strategic or financial investors from outside of Europe, particularly the United States and Asia.

The European legal landscape remains fragmented in important areas and presents unique pitfalls of which foreign investors should be aware. The following are some of the important IP issues that commonly arise in European technology deals:

1. Lack of Uniform IP Rights

While IP protection across Europe meets minimum standards of protection under the TRIPS Agreement and specific EU directives, many important areas are not harmonized and remain governed by national laws that vary significantly from country to country in key respects, including questions on:

1 Harris Williams & Co, European Winter Update, February 2015, http://www.harriswilliams.com/sites/default/files/industry_reports/euro_mailer_winter_2015_0.pdf

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- whether ownership of IP rights vests in the employee or the employer;
- whether licensees are protected in the event of a licensor's bankruptcy;
- whether licenses must be recorded to be enforceable against an assignee of the licensed IP;
- what formalities are required to effect the assignment of IP rights;
- whether licenses are – by default – assignable or sublicensable;
- whether sublicenses survive the termination of the main license; and
- whether co-owners require consent for the use, licensing, or enforcement of co-owned IP and whether they are subject to revenue sharing or accounting requirements.

These variations will remain even under the "Unitary Patent" regime that is expected to go live in 2017.

Diligence, deal documentation, and implementation (including the recordation of assignments and licenses where required) need to be highly tailored in light of these differences.

2. IP Ownership

Foreign investors who rely on an automatic transfer of ownership of employee-developed IP may be in for a surprise. In many European countries, there is no "work made for hire" doctrine (as known, e.g., in the United States) and ownership of copyright will originally vest in the employee who authored the work. In some countries, such as Germany, the copyright as such is considered inalienable and the assignment of an employee's copyright to the employer – a standard provision in U.S.-style employee IP agreements – is not possible. While German law does allow the transfer of the author's rights to use and exploit the work, that transfer requires an explicit agreement.

There are exceptions for software created by an employee pursuant to the European Software Directive.[2] However, implementation in national laws varies, with some countries providing for original ownership by the employer of employee-created software works, while other countries only provide for a statutory license to the employer.

Diligence and deal documentation must reflect those differences. In some cases, insufficient or absent "transfers" of employee rights need to be remedied pre-signing or pre-closing.

2 Directive 2009/24/EC on the Legal Protection of Computer Programs, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32009L0024.

3. Inventor Remuneration

With respect to employee inventions, the laws across Europe are also often different from the laws of certain key non-European jurisdictions. In sharp contrast to the situation with respect to copyrightable works, the right to employee inventions often vests in the employer by operation of law in many European countries. Some countries impose formal and procedural requirements,[3] and there may be time limits with respect to an employer's opt-in or opt-out rights.

Most importantly, some countries, such as Germany, have mandatory statutory inventor remuneration laws, requiring the employer to pay adequate remuneration for the use of the employee's inventions in addition to his or her regular salary. The details are complex and often require specific discussions about past and future compensation of employees, depending on whether the employee and/or that employee's inventions and related patents are transferred to the buyer or retained by the seller.

Focused diligence and specific representations and warranties with respect to the seller's past compliance with remuneration laws may also be required.

4. Insolvency Issues

In the event of a licensor's bankruptcy, European national laws do not necessarily provide protection for the licensee as this may be the case in other jurisdictions. Germany, for example, currently provides no statutory protection for licensees in a licensor bankruptcy proceeding.

In M&A transactions, this risk must be considered both by purchasers obtaining licenses under seller-retained IP and by sellers obtaining licenses back under IP transferred to the buyer. It is also a risk factor if the acquired business relies on key in-licenses from third parties. Statutory law varies from country to country in Europe.

Evolving case-law in some countries, notably in Germany, suggests that there are ways to structure transactions in a way that could mitigate this risk,[5] but any such structure requires careful analysis on a case-by-case basis.

3 In Germany, employees are obliged to report any invention made in the context of their employment; for inventions reported prior to October 2009, the employer had to explicitly claim the invention to ensure that title actually passed to the employer; after a change in the law, title to any invention reported after October 2009 will automatically transfer to the employer if not explicitly rejected.

4 In this vein, the *Qimonda* bankruptcy and related court proceedings in Germany and the United States served as a wake-up call to many licensees.

5 Some lower court decisions in Germany suggest "retained" rights may be more bankruptcy-proof than a license back.

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5. Privilege

U.S.-style discovery is generally not available in civil-law countries. As a result, there is also no direct counterpart to the U.S attorney-client privilege doctrine and European companies are often not aware of the risk of privilege waiver through disclosure of privileged information. Investors that may be subject to U.S.-style discovery, including non-U.S. companies with a strong presence in the United States, should consider and address this risk in deal discussions and diligence involving European counterparties. Otherwise, potentially harmful documents and attorney-client correspondence disclosed by the unwary European counterparty could become discoverable in subsequent U.S. litigation to the detriment of the new business owner or the European target or both.

CURRENT DEVELOPMENTS

M&A Leaders Survey Predicts Strong Tech M&A Activity

Western Europe and the UK in the Top 5 of the "Hottest Regions/Countries"

A majority of respondents representing multiple sectors of the technology M&A community forecast acquisition activity in 2015 tracking to its strongest year since the Internet bubble burst in 2000, according to the latest M&A Leaders Survey.

The survey, conducted jointly by Morrison & Foerster and tech market intelligence firm 451 Research, reveals that over 6 in 10 respondents expect to see an increase in the number of tech M&A transactions this year, with over 15 percent of those expecting an increase predicting a "significant" increase over 2014 levels. In addition to an anticipated rise in tech M&A activity, a majority of respondents also expect private company valuations to either rise or stay the same as 2014. The number of IPOs is also expected to either remain at or increase over 2014 levels, the survey found.

When asked to pick the three "hottest" countries or regions for establishing or expanding a presence through acquisition or partnership, the United States was the runaway favorite (identified by 75 percent of respondents), followed by Western Europe (47 percent), China (33 percent), the United Kingdom (25 percent), and India (19 percent).

More information about the M&A Leaders Survey can be found here.

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NOTEWORTHY DEALS

Nokia to Merge with Alcatel-Lucent

Finnish multinational technology company Nokia has announced to buy U.S.-French rival Alcatel-Lucent, a leading supplier for cutting-edge transmission technology. Nokia offers 0.55 share-for-each-share of Alcatel-Lucent, a 28 percent premium on the average price of the last three months. The transaction is assumed to close in the first half of 2016.

Apple Acquires German Metaio

California-based technology company Apple, Inc. has acquired Metaio GmbH, an Augmented Reality (AR) start-up, based in Munich, Germany. Metaio develops AR tools that use 3D tracking-capable devices for the development and deployment of Augmented Reality apps. The terms of the deal have not been disclosed.

Microsoft Acquires Berlin-based 6Wunderkinder

U.S. technology company Microsoft Corp. has acquired 6Wunderkinder GmbH, a German software developer of productivity apps for smartphones and tablet computers, including the to-do list app Wunderlist. The Berlin-based start-up was founded five years ago and has attracted a number of venture capital funds since then, including U.S. venture capitalist Sequoia Capital, German Earlybird Venture Capital, and Amico, with investments amounting up to approximately EUR 25 million.

Brother Industries to Take Over Domino Printing

Japanese electronics and electrical equipment company Brother Industries Ltd. reached an agreement on the acquisition of Domino Printing Sciences plc, the UK-based developer of inkjet printing and laser printing products, for USD 1.5 billion – an enterprise value of 15.4 times of Domino's fiscal 2014 Ebitda (approximately USD 98.4 million). The acquisition will expand Brother Industries' range of industrial and digital printing products. The transaction itself is pending both approval of a majority vote of 75 percent at the specially convened meeting and of clearance by China's Ministry of Commerce and by the European Commission.

Juno Therapeutics Acquires German Stage Cell Therapeutics

Seattle-based biopharmaceutical company Juno Therapeutics, Inc. has acquired the German biotechnology company Stage Cell Therapeutics GmbH, a developer of advanced cell isolation and expansion technology platforms based on fully reversible reagents. Juno made an upfront payment of approximately USD 59 million in cash and 486,279 shares of Juno stock to acquire the 95 percent of Stage shares not already owned by Juno. In addition, Juno is obligated to make success-based payments of up to USD 151 million for the achievement of development and commercialization milestones.

FedEx to Acquire TNT Express

NYSE listed company FedEx Corp. reached a conditional agreement on a recommended all-cash public offer to acquire TNT Express NV, one of the world's largest express delivery companies, based in the Netherlands, with a deal value of USD 4.8 billion. PostNL N.V. has irrevocably tendered its 14.7 percent stake in TNT Express. The deal is assumed to close in the first half of 2016.

Advent to Sell German Beauty Products Chain Douglas to CVC

Boston-based global private equity firm Advent International Corp. will sell Douglas Holding AG, the listed German beauty products and perfumes retail chain, to CVC Capital Partners Group for an amount of USD 3.27 billion. The founding family Kreke will retain a minority interest of 15 percent after the transaction.

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