THE IP PRESS LAW REVIEW

Volume 1 Issue 1 April 2022

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Published by
The IP Press

2021-2022

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EDITORIAL NOTE

Intellectual Property is the key driver to propel the economic growth of a nation. Hence, understanding IP gains utmost significance not only from a business point of view but also from a socio-economic perspective. We as nationals of any country should be vigilant in protecting and defending our IP rights. However, there are multiple issues and challenges that need discussions, and reforms. The IP Press Law Review (IPPLR) is an initiative of The IP Press to extend our objectives of spreading awareness on the issues concerning intellectual property rights and related laws. It aims to promote study and research in the field of intellectual property laws in the form of academic literature. This issue reflects some of the key concerns of the Intellectual property regime both under national and international parlance. It is envisioned to embody some of the most brainstorming insights that help readers to grasp the discourse around contemporary developments in the field of Intellectual Property Law. Throughout the year, the editorial board has reviewed the papers with multiple rounds of editing to ensure quality and standard.

This issue presents intriguing issues and challenges pertaining to intellectual property law in the national as well as the international regime. The first paper encapsulates the protection of personality rights under Intellectual property laws and briefly presents the status of multiple jurisdictions. The second paper discusses a pertinent issue of protection of fictional characters that have been a cause of concern in many disputes. The author discusses the theoretical framework and analyses various tests laid down by the judiciary.

The third paper explores religion as a subject and object of the trademark. The author determines the legality of the trademark of religious symbols for private companies and religious organisations. The fourth paper presents a policy discussion on the overlap between trademark and functionality doctrine. The fifth submission deals with the congruence of intellectual property assets in combination and corporate restructuring wherein the author states that IP has immense power to help businesses to grow and hence its valuation becomes an important aspect of commercialization of IP. The sixth paper demonstrates how open-ended section 57 of the Copyright Act, 1957 is which leads to ambiguity. The author asserts reforms in the current provision of moral rights. The seventh paper discusses the recent dissolution of the intellectual property appellate board in the backdrop of the Tribunal Reform Bill, 2021. The eighth paper discusses the relevance of IP Due diligence and suggests quarterly checks and steps carry out the due diligence process to combat the closing down of businesses and lifelong losses. The ninth paper presents analyses of the patent denials in the biotechnology sector and their impact on the industry. The tenth paper presents an interesting analysis of trademarkability of non-conventional trademarks due to hindrances of graphical representation and discusses multiple judgements of the European courts. The last two items present an analysis of two landmark cases, one Monsanto case and two, Phonpe v. Bharatpe trademark tussle.

Happy reading!

IN THIS ISSUE

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THE CONGRUENCE OF INTELLECTUAL PROPERTY ASSETS IN COMBINATION AND CORPORATE RESTRUCTURING

Shantanu Sharma[*], *Prutha Bhavsar*[**]

ABSTRACT

In today's world, one of the most attractive and valuable category of assets for a business is its Intellectual Property for the reason that it has immense power to help a business grow and flourish. For a number of businesses, their profits are derived majorly through use of such intangible assets only. This happens so because of either the technology that the company created, the brand that has become its trademark or the inventions in the name of patents that make a company unique and provide a superior position in the market in a related field. Now that intellectual property carries so much value in a business, it is important that its value ought to be determined in the most accurate manner as possible. Valuation becomes difficult for the reason of the intangibility of such assets. Undervaluation leads to losses by the target company and overvaluation leads to what is known as a winner's curse for the acquiring company. In addition to this, while acquiring IP a number of problems may arise with respect to jurisdiction, tax or antitrust laws. When all the issues are taken into account and the due diligence is carried out almost accurately, the profits that flow from such a merger and acquisition is immense and fruitful. Through the course of this paper, each of these aspects are discussed and analysed.

Keywords:- Intellectual Property, Merger and Acquisition, Tax, Intangible Assets, Due Diligence etc.

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1. INTRODUCTION

Intellectual property drives commerce. In this growing business world, it is believed that IP is the key to economic growth. Most of the companies that strategies expansion while undergoing mergers or acquisitions are based on Information Technology, Telecommunication, Business Process Outsourcing, Pharmaceuticals, etc. When mergers or acquisitions take place, the aim is to combine and utilize both the tangible and intangible assets of the target company to improve profitability. Intellectual property forms the most valuable asset.

In today's 'idea economy', where knowledge is power, Intellectual Property (IP) is symbolised as the unique and continuing identifier of a company because of its creations of products and processes of art, literature, music, science and technology through the creativity and intelligence of various individuals. For the same reason, valuation of IP becomes a challenge involving risk to an extent that there is a probability that no value would be created out of the merger or acquisition. The same problem does not arise while evaluating the intangibles such as the know-how and proprietary technology which is inclusive of talent or skills of the workforce. Therefore, the same method of valuation that is used for overall business valuation cannot be applied while evaluating the intangible asset. This is so because the traditional methods of valuation do not take into account the multiple outcomes possible with the use of the technologies that have not yet been commercialised or used in the marketplace[1].

2. RELEVANCE OF IP MERGERS AND ACQUISITIONS

Intellectual Property largely consists of patents, trademarks, industrial designs, trade secrets, domain names, etc. All major businesses possess certain of these intangible assets. These maybe in the form of the technology that they own, brand that they have created or certain trade secrets that they have developed. All these assets create profits and goodwill for a company and thus contribute in adding value along with its earnings. A good example for this is the Versace acquisition by Michael Kors to gain access to new product line and market for $2.1 billion[2].

[1] Suchy Donna, 'The Block's New Big Kid: The Growing Importance of IP to Companies Puts a Premium on Effective Valuation.' (2006) 92 ABA Journal <www.jstor.org/stable/27846158 >accessed 16 September. 2020.
[2] Mario Abad, 'Michael Kors Announces Acquisition Of Versace For $2.1 Billion' (Forbes ,28 September 2018) <https://www.forbes.com/sites/marioabad/2018/09/24/michael-kors-versace/#75215aea7717> accessed 18 September 2020.

As shown in the following figure[3], 34% of mergers and acquisitions take place Certain companies undergo mergers and acquisitions with an aim to create a patent pool i.e. integrating patents which are inter related. Creation of an integrated pool of patents or any other technology fuels M&A activity as the same results in reducing litigation and licensing costs, increase in market shares, increasing capabilities, surviving the competition, etc. For example, Thales acquisition of IT leader Gemalto for €4.8 billion made the company a leader in digital identity and security such as data protection and cyber security[4]. Another example of a similar kind of acquisition is that of ABB Power Grids by Hitachi, which made Hitachi one of the largest energy frontiers of the power industry[5]. Therefore, it is necessary to note that proper IP valuation is very crucial while negotiating a deal during mergers and acquisitions. Assessment of IP assets is also required by the target company in order to protect the value of its rights.

3. METHODS OF IP VALUATION

Valuation of IP refers to determining monetary value of an intangible asset i.e. the Intellectual Property. Valuation is deemed to be an art than it is science as it involves interdisciplinary implementation of law, economics, finance, accounting and investment. Commercial valuation is based on the principle that the value of something cannot be abstract. We adhere to the questions 'valuable to whom' and 'important for what purpose?' before carrying out the valuation. This rule is of importance while carrying out valuation of intellectual property[6].

The methods of valuation fall into three of the following categories:

1. Market Based: In this method, the value is decided by market price of analogous market transactions. However, this method becomes futile for the reason that it is difficult to find a comparable market transaction. Additionally, since intellectual property is not developed

[3] Fortune Knowledge Group, 'US Executive Survey on Mergers and Acquisitions: full speed ahead in 2016' (KPMG Survey, 2016) < https://imaa-institute.org/wp-content/uploads/2016/03/kpmg_us-executives-on-m-and-a-2016.pdf> accessed 20 September 2020.

[4] Business Wire, 'Thales Completes Acquisition Of Gemalto To Become A Global Leader In Digital Identity And Security' (The financial Post, 2 April 2019) <https://financialpost.com/pmn/press-releases-pmn/business-wire-news-releases-pmn/thales-completes-acquisition-of-gemalto-to-become-a-global-leader-in-digital-identity-and-security> accessed 20 September 2020.

[5] Jeff St. John, ' Hitachi completes acquisition of ABB power grids to tackle renewable energy's rise' (Green Tech Media, 1 July 2020) <https://www.greentechmedia.com/articles/read/hitachi-completes-acquisition-of-abb-power-grids> accessed 20 September. 2020.

[6] Kelvin King, 'The Value of Intellectual Property, Intangible Assets and Goodwill' (2002) 7 Journal of Intellectual Property Rights.

to be sold and it forms only a smaller cost of larger transactions, this method becomes limited[7].

2. Cost based: The value of the IP is determined by the cost to create or the cost to replace. However, as easy as this method is to utilise, it ignores the changes in the time value of the property and other costs during the course of the business such as maintenance costs[8].
3. Based on estimates of future economic benefits: This method takes into account the future possible earnings of the business. This estimate is broken down into a) capitalisation of historic profits i.e. the historic earning capacity, b) gross profits differentiation which is generally associated with trademark and brand valuation, c) excess profits and d) relief from royalty cumulatively known as "discounted cash flow analysis"[9]. This is the most comprehensive method to determine the value of an IP asset. It takes into account the potential profits that would be derived from the assets on the basis of historical earnings. It also takes into account expected capital outflows and investment prospects[10].

4. MEANS OF ACQUIRING INTANGIBLE ASSETS

There are multitudinous forms of obstacles, which an acquirer and a seller needs to overcome in pursuance of formulating a win - win agreement for transfer of intellectual property rights during a merger and acquisition. The factors affecting the complexity of the agreement may vary depending upon the companies size, publicity, identification of IP assets, third party claims, verification of IP, Term and territory checks, which can be further coupled with convoluted other forms of diligences.

The significance of due diligence in a merger and acquisition can be clearly projected from the range of complications aforementioned.

Acquisition agreement is the primary step towards substantiating the acquisition of intangible assets. The fundamental function of this agreement is analogous to the purpose of any other agreement, as the acquisition agreement provides the detailed terms and conditions associated with

[7]ibid.
[8]King (n 6).
[9]ibid.
[10]Mandavi Singh, 'Intellectual Property; The Dominant Force in Future Commercial Transactions Comprising Mergers and Acquisitions' (2009) 2 Indian Journal of Intellectual Property Law <https://www.nalsar.ac.in/IJIPL/Files/Archives/Volume%202/11.pdf> accessed 22 September 2020.

the transaction. It enumerates the purchase price, the method of payment, condition precedents, the warranties and representations made by the seller etc.

Another essential means of acquiring intangible assets are the transfer documents which are specific to the form of transfers. The IPR owned by the transferor company are not naturally transferred to the transferee's company rather even post execution of acquisition agreement the transferor company needs to provide license to the transferee's for enjoying IPR's owned by the transferor's or they need to transfer the intangible assets to the transferee's, Section 394 of the Companies Act, 1956 provides authority to the courts for sanctioning the transfers made during a process of compromise or arrangement. Trademark being a form of property can be transferred under the aforementioned section of Companies Act, 1956, for the transfers of registered copyrights, the transferee company is required to make an application to the registrar of copyrights for registration of its titles. Similarly, in cases of patent transfers the transferee is required to apply to the controller of patents for the registration of its titles, failing which the transferor remains the actual owner of the IPR's though they are been transferred in lieu of the acquisition agreement to the transferee[11].

5. MEASURES BEFORE ACQUIRING AN IP ASSET

Due diligence is of the utmost importance because of the varying valuations that would take place while negotiating a deal during a merger or an acquisition. It usually begins with a Letter of Intent or a Memorandum of Understanding through which all the requisite documents of each company involved in the transaction is exchanged for the other one's perusal. While doing so, it is important to undertake a Confidentiality Agreement with respect to the information shared for protection of the same. A Confidentiality agreement is especially required when there is involvement of trade secrets.

While conducting due diligence, following multifaceted approach needs to be applied:

a) Present and future worth of the company's IP- in plant, in the marketplace and in the court.
b) The level of insulation from the target's business i.e. the competition and infringement.

[11]Shriyaj, 'Mergers & Acquisitions & the IPR Issues Involved' (Legal Services India, 11 September 2020) <http://www.legalservicesindia.com/article/503/Mergers-&-Acquisitions-&-the-IPR-Issues-Involved.html> accessed 11 September 2020.

c) Possible third-party claims for infringement of IP.
d) Measures taken by the target company to minimise the involvement of disputes with respect to third party claims of infringement[12].

In addition to the above factors, during the due diligence even the obligations listed in the license agreements need to be analysed. This is necessary so for the reason that Mergers and Acquisitions have a major impact on the licensing agreements. While conducting due diligence with respect to such assets, the DD team also needs to run an ownership check so that no issue arises during transfer of the ownership. Next, the team needs to check the validity of the related IP i.e. territory of each applicable IP since most of the IP rights are enjoyable in limited territory[13].

The basic purpose of conducting due diligence is to facilitate and expedite the integration of both the firms so as to make them aware of the future risks and possibilities that will arise from the deal. The information related to the IP obtained from due diligence would also help one to know how the technical conduct of the IP takes place in the business. With a change in the economy and the diversity of the businesses around the world, the due diligence team are the environmental consultants[14].

6. RISK OF UNSOUND DUE DILIGENCE

As mentioned earlier, the importance of due diligence cannot be ignored while negotiating a deal with respect to merger or acquisition. If all the relevant documents and/or information with respect to the IP assets are not analysed properly, it might have severe consequences to the business in the future. When a merger or an acquisition is driven by Intellectual Property, the valuation of the concerned IP should be carried out very carefully as IP assets are difficult to assess accurately.

A merger or acquisition involving majorly transfer of IP assets with unsound due diligence might result in what is called as a "Winner's Curse ". Winner's curse is said to occur when the acquirer

[12] Martin B Robins, 'Intellectual Property and Informative Technology Due Diligence in Mergers and Acquisitions: A More Substantive Approach Needed' (2008) 2008 U Ill JL Tech & Pol'y 321.
[13]Suneeth Katarki and Aditi Verma Thakur, 'Intellectual Property Due Diligence' (Mondaq, 3 December 2015) <https://www.mondaq.com/india/trademark/448686/intellectual-property-due-diligence> accessed 16 September 2020.
[14]Shriyaj (n 11).

company pays for such assets more than the market value and then regret the deal when the profits or the expectations are not met. Additionally, the acquirer company might also be faced with cumbersome litigations, competition from the market or multiple jurisdiction issues all resulting in failure to maximise the asset's value for profit and gains.

One of the most basic solutions to avoid overpaying while going through the deal is to not focus entirely on the past accounts but also to determine the future prospects of the deal such as that of free cash flows[15]. The company should also aim to strengthen and sustain the company's product position and share margin in the market. In addition to this, an analysis as to the company's future market line also needs to be carried out.

7. MEASURES POST ACQUIRING AN IP ASSET

As pre merger measures decides the basis of the integrating relationship, likewise there are huge set of post merger compliances which determines the fate of the restructuring or combination of separate entities and which needs to be analysed at the pre merger stage itself before being decisive about the combination or restructuring. These post-merger compliances can be separately characterized in two sub heads:

A. Statutory Compliances.
B. Administrative Compliances.

The other forms of issues associated with the integration of two separate entities are the management of human resource and finances in order to yield planned synergies out of the restructuring or combination.

A. Statutory Compliances:-

There are various statutes and a regulation which needs special attention post the closing of the integration stage.

[15] ibid.

iv. The Companies Act :-

The compliance associated with Companies act initiates by obtaining the authenticated copy of NCLT order sanctioning the scheme, which is followed by payment of Rs 1 Lakh towards the PM's Relief Fund by the transferor as well as the transferee each.

Further, both the entities are required to file the NCLT order sanctioning scheme in e-form INC 28 pursuant to section 12(6), 13(7), 58(5), 87 & 111(5) of theCompanies Act, 2013 with the Registrar of Companies (RoC), following which the transferee company is required to conduct board meeting to take the scheme on record, to record date for determining the list of share holders of transferor company for issuing shares of the transferee company, to take note of the revised share capital and paid up capital in the Memorandum of Association (MOA) and Articles of Association (AOA) of the transferee company, and to take note for amending the objective clause in the MOA. Subsequently, the allotment of shares to the shareholders of the transferor's company are to be made. Following which payment of stamp duties are to be made on share certificate.

Form FC-GPR is to be filed with the Reserve Bank of India with respect to issuance of securities to the foreign investors of transferee company, if there are foreign investments in the entity[16], and lastly, scheme related filings with governmental and regulatory authorities such as the applicable labour authorities, tax authorities are to be made. These would include filings for intimating the effectiveness of scheme and updating of authorities/ vendors/ counterparts records with the name of transferee company or transfer of registrations/ licenses from the name of transferor company to the transferee company[17].

v. Foreign Exchange Management Act (FEMA), 2000:-

As per Regulation 7 of FEMA 2000, after a scheme of integration has been approved by the court, the transferee is allowed to issue shares to the shareholders of transferor's company who are non residents of India, however they should not exceed the allowed percentage of non resident shareholders as are prescribed by the RBI or as are prescribed under the foreign direct investment

[16]'Form FC - GPR' (Reserve Bank of India, 11 February 2020) <https://rbidocs.rbi.org.in/rdocs/Forms/PDFs/AP110214_ANN.pdf> accessed 8 September 2020.
[17] Shubham Katyal, 'Post Merger Adaptation – A significant element to successful deal' (Tax Guru, 22 November 2018) <https://taxguru.in/corporate-law/mergers-acquisitions-global-perspective.html> accessed 2 September 2020.

policy by FEMA and if such threshold is not upheld by the transferee company then the transferee's company is required to take approval of the Foreign Investment Promotion Board (FIPB) and the RBI before issuing shares to non residents.

vi. The Competition Act, 2002:-

The objective behind the involvement of Competition Act in the process of restructuring or combination is to ensure that such restructuring does not hampers with the active competition law regime which is to secure healthy competition in the market.

By the virtue of Section 20 of the Competition Act, 2002 the Competition Commission of India (CCI) is empowered to take Suo Moto cognisance or upon receiving the information within one year from the date of combination or restructuring authorisation to look in to the combination or restructuring undergone in order to curb or prevent the anti competitive practices. However, under section 6(2) of the Competition Act, 2002 provides the transferee's with an option to provide a prior notice to CCI post closing of the integration declaring there combination or restructuring to be adhering the competitive regulations under the Competition Act, 2002 though this may not bar the CCI from taking cognisance if need be.

vii. Indirect Taxes:-

On the appointed date the transferor may have the credit lying either in stock or in work in progress, in such circumstances the credit has to be transferred to the transferee company. However, the credit shall be allowed only if stock of inputs or work in progress is also transferred along with the factory to the new site of ownership and the inputs on which credit has been availed of are duly accounted for to the satisfaction of the tax department.

viii. The Special Economic Zones Act, 2005 (SEZA):-

If an undertaking is empowered to the deductions under the SEZA and is being transferred before incorporating such deductions then no such deductions shall be admissible to the restructured or combined entity.

ix. Stamp Duty:-

Stamp duty is another important aspect associated with post merger compliances. The transferee company and the transferor company must make sure that they pay the stamp duties. Prior to

acquiring a private company, the transferee company can get its shares dematerialized with National Securities Depository Ltd. (NSDL) and Central Depositories Services Ltd. (CDSL). In situations where the private companies AOA does not enumerate such provisions then the same must be included by way of an amendment, this would save on the stamp duty on transfer of shares to be paid by the transferee company[18].

There is no stamp duty on the combination of holding and subsidiary companies. However, the stamp duty being a state subject may vary from state to state.

B. Administrative Conduct

There are various administrative conducts which needs to be carried out to provide proper finishing to the merger and acquisition process.

a. To reorganize the structural framework for the new entity borne out as a result of the combination and restructuring to accommodate the employees of the transferor company.
b. To notify the bank and other financial institutions about the novel state of the transferor and transferee companies.
c. To restructure the insurance policies for the employees of the novel entity this is a result of the combination and restructuring of the transferor and transferee companies.
d. To make necessary changes on the official website, employees id's etc.
e. To reformulate the accounting policies.
f. To promote the propagation of the new entity among the public, clients etc.

The set of statutory and administrative compliances provided aforementioned are not absolute and may vary depending upon the nature of transaction, business, industry, location, etc. for converting the combination and restructuring into a success mere fulfilment of statutory compliances is not adequate, the administrative duties do form an integral part in the construction of the road towards that success, hence administrative duties should not be frowned upon.

[18]ibid.

8. INTELLECTUAL PROPERTY AND TAX OPTIMISATION

The intellectual property rights acquired by the virtue of restructuring or combination of two separate entities, provides ample amount of opportunities for the acquiring entity to exploit the assets acquired in the form of IPR's, this may turn out to be a suitable means of tax planning and tax efficiency.

There are certain forms of strategies which may result in tax optimisation at its peak, such as : cross border transfer pricing and IP holding companies. In these strategies the acquiring entity on obtaining the IP assets may choose to sell it, license it to another company and extricate themselves from tax compliances. Another, way of tax optimisation is to park the IP by transferring the IPR to offshore tax havens until it is qualified to be exploited.

Generally, the entity controlling and utilising the IP assets are obligated to pay service tax and on the other hand the companies creating and acquiring the IPR's are also blessed with certain tax reductions in lieu of the costs incurred by them i.e. the legal costs, research and development cost, royalties, salaries, registration fees etc., after passing a period of one year. So when clubbed together, the wider ambit of tax optimisation on the part of the acquiring or IP assets creating entity can be clearly witnessed, if the acquiring entity dispense there IP assets to a third party on the basis of a licensing agreement or if they sell it to a third party they can clearly reduce there tax expenses.

Subsequently, a company which has presence in multiple countries may incur major forms of complications in determining the tax implications, hence the pre merger compliances should also include the pre determinations and due diligence to look over the tax treaties among the nations, if any or else the tax requirements and taxation in the foreign jurisdictions[19].

9. INTELLECTUAL PROPERTIES AND JURISDICTION ISSUES

The firms acquiring the IP assets often tends to use such assets in more then one country and the laws governing in the parent company of the acquiring firm are generally distinct from the IP laws in the host country, in such a scenario an ambiguity arises over jurisdiction. Generally, in these

[19]Singh (n 10).

situations the courts deals on the basis of the merits of the IP alone, or rely on the international conventions for the protection of IPR's[20].

10. CONCLUSION

Merger and acquisition is an essential and robust mechanism to expand the ambit of a company's market and is considered to be a healthy activity for the overall growth of the market. The Darwin's theory survival of the fittest can be clearly applied in the situation of mergers and acquisitions where a fitter company either acquires a lesser fit company for the expansion of their market or two companies who are struggling to survive in the market can merge together to obtain strength for their survival. However, this process eliminates many businesses in the market by acquiring them it is considered a boon for the market as a result of which there are several governmental schemes or enactments backing the promotion and propagation of this process.

> *"The only thing you really own is what you create, and the only thing you can create without needing someone else to give you raw materials first, is intellectual property"* - Caliban Darklock[21]

As stated by Darklock, Intellectual property is the first property, which a company or a business acquires, therefore in the process of mergers and acquisitions there is ought to be transfer of intellectual properties, as they comprise of major assets of the acquired enterprise. In the research above the researcher has tried to enumerate various aspects in which an IP asset affects the process of merger and acquisition. Further by analysing ample of situations arising out of acquiring IP assets of a company during the process of merger and acquisitions the researchers are of the view that IP assets do have very strong affect on the process of merger and acquisitions. Hence, should be dealt with utmost caution, by adhering to statutory and administrative compliances, in order to obtain progressive outcomes from the combination, compromise, arrangement or restructuring.

[20] ibid.
[21] Anmol Mishra, 'Role of Intellectual Property in an Acquisition or Merger' (Legal Services India, 15 September 2020)<http://www.legalserviceindia.com/legal/article-2693-role-of-intellectual-property-in-an-acquisition-or-merger.html> accessed 15 September 2020.