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

IN THIS ISSUE

IP DUE DILIGENCE: COMBATTING WINNER'S CURSE!

Harsha Aswani[*]

ABSTRACT

"When you measure what you are speaking about and express it in numbers, you know something about it, but when you cannot (or do not) measure it, when you cannot (or do not) express it in numbers, then your knowledge is of a meager and unsatisfactory kind."[1]

IP assets are known as the ultimate deal-makers or deal-breakers in all kinds of corporate transactions. Despite such importance attached to IP assets, many companies ignore their existence, until last minute, or pay only a little attention to them, due to their myopic belief that makes them think that IP assets would get transferred to them automatically with the purchased assets of the target entity. The market is, in fact, filled with cautionary tales of companies who failed to reduce the informational asymmetries due to lack of vigilance and IP due diligence exercise, leading to costly affairs, closing down of businesses, and lifelong losses.

This paper shall attempt to illustrate, through three real-life case studies, the plight of the big companies that was nothing short of a Winner's Curse, merely because they failed to put a proper IP Due Diligence exercise in place. The paper would then suggest the quarterly checks and steps to carry out the IP Due Diligence Process to combat this Winner's curse, and save oneself from making embarrassing errors in judgments.

Keywords: IP, Assets, due diligence, Winner's curse, iPAD, Apple.

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[1] Lord Kelvin, 'Popular Lectures and Addresses‒ Electrical Units of Measurements' (Oxford Reference) <https://www.oxfordreference.com/view/10.1093/acref/9780191826719.001.0001/q-oro-ed4-00006236> accessed 23 May 2021.

1. INTRODUCTION

In the year 1998, Volkswagen AG, the German automobile manufacturer, ended up paying almost $800 million for the luxurious hand-picked car company, Rolls Royce Motor Cars Ltd. along with its old manufacturing unit at Crewe and the labour-force, without even getting hold of the famous "RR" logo.[2] The deal could be attributed to lack of due diligence and vigilance on the part of Volkswagen, who was too much fascinated by the name and goodwill of "Rolls Royce".

Another instance happened with the Giant Technology Co., Apple, who got into a trademark kerfuffle with a Shenzhen-based company, Proview, over the rights to the name "iPad".[3] Had Apple undertook a basic IP due diligence, it could have not only saved itself from paying $60 million to Proview, the Chinese firm, but would have not lost its business in some parts of China.

Often, the deals on the face of it appear too glamorous to avoid, that the companies end up paying a lot higher than the actual worth of the asset they purchased, a tendency termed as "Winner's Curse". The companies understand the importance of the potential deal, but what is more important to them is the exercise of "due diligence" before sealing the deal, wherein they take account of not only purchase of tangible assets, but also intangible assets, such as Intellectual Property Rights. At one point of time, due diligence of IP rights to be specific was generally thought about only at the eleventh hour of the deal, but now it is not considered a small aspect anymore. Companies like to get their hands on every small bit of detail that has the potential to make or break the deal.

This paper shall first, attempt to explain the importance of IP due diligence, which is a huge and a valuable aspect in any business transactions, through real life case studies. The paper would then explain certain *"quarterly IP checks"* that a company must undertake before jumping into any kind of transaction, be it mergers or acquisitions, licensing, sale, and the like to save themselves from the embarrassment of sabotaging their own name as well as the potential losses that unnecessarily accrue.

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[2] Terence Lau, 'Caveat Emptor: Lessons from Volkswagen's Lemon Purchase' (2003) 12 Currents: INT'l TRADE L.J. 3, 4-5.

[3] Dan Harris, 'Apple and China Trademarks and So Much to Learn' (Harris Bricken, 15 February 2012) <https://harrisbricken.com/chinalawblog/apple-and-china-trademarks-and-so-much-to-learn/> accessed 23 May 2021.

A. Meaning and Purpose of IP Due Diligence

The term "Due Diligence" implies "requisite efforts".[4] Legally, the term is synonymous to "ordinary care".[5]

Merriam Webster Dictionary defines Due Diligence in the context of a business signifies "Research and analysis of a company or organization done in preparation for a business transaction (such as a corporate merger or purchase of securities)."[6]

Due diligence, in a general and ordinary sense, refers to taking specific extra care that may be required while entering into certain transactions, which could be as simple as buying a smartphone. While purchasing a smartphone, the affordability of the buyer plays the foremost role, followed by the price at which the mobile is offered; the technical features that coincide with the price of the mobile phone are also looked into. People who are into heavy online usage would give preference to the battery life along with the processor and storage of the phone; Apart from this, the in-built camera megapixels and the aperture also influence the decision-making of the consumer; some would have a colour preference for their phone while others would want to go for larger phone displays. Once all of this is thoroughly evaluated, the consumer would probably purchase the phone. At any off chance, if they are not satisfied, they may ask the shopkeeper to show another variant within their budget. These especially specific things that a consumer checks or takes care of are nothing but ordinary diligence exercises that any prudent man would look into while making a transaction.

[7]Similarly, in any business transaction involving mergers or acquisitions, the acquirer would always carry out due diligence of the target company's assets and liabilities, so as to make an informed decision.[8] Due diligence helps the acquirer firm in scrutinising the target firm's viability. The acquirer weighs the target firm's assets and liabilities, analyses the potential risks that the

[4]Merriam Webster Dictionary <https://www.merriam-webster.com/dictionary/due%20diligence> accessed 23 May 2021.
[5] ibid.
[6]Merriam Webster Dictionary (n 4).
[7]Mergermarket and RR Donnelley, 'Due Diligence Roadmap: Taking the Right Steps' (2016) 1, 8 <https://www.mergermarket.com/assets/RRD-Due-Diligence-Roadmap_Issue-1_Final.pdf> (herein after Mergermarket and RR Donnelley Survey) accessed 23 May 2021.
[8]Suneeth Katarki and Aditi Verma Thakur, 'India: Intellectual Property Due Diligence' (Mondaq 3 December 2015) <https://www.mondaq.com/india/trademark/448686/intellectual-property-due-diligence> accessed 23 May 2021.

company would have to incur and if, at all, these can be minimised, before sealing the final value for the transaction.[9]

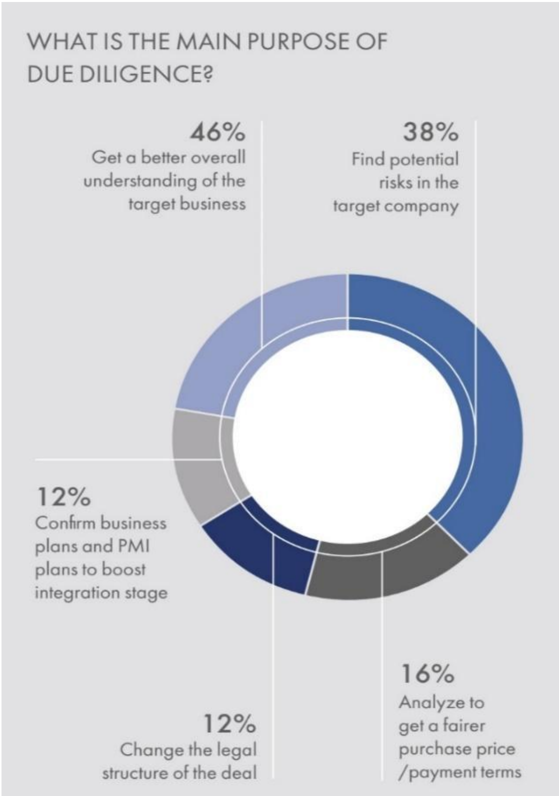

Figure 1, Source: RR Donnelley and Mergermarket Survey[10]

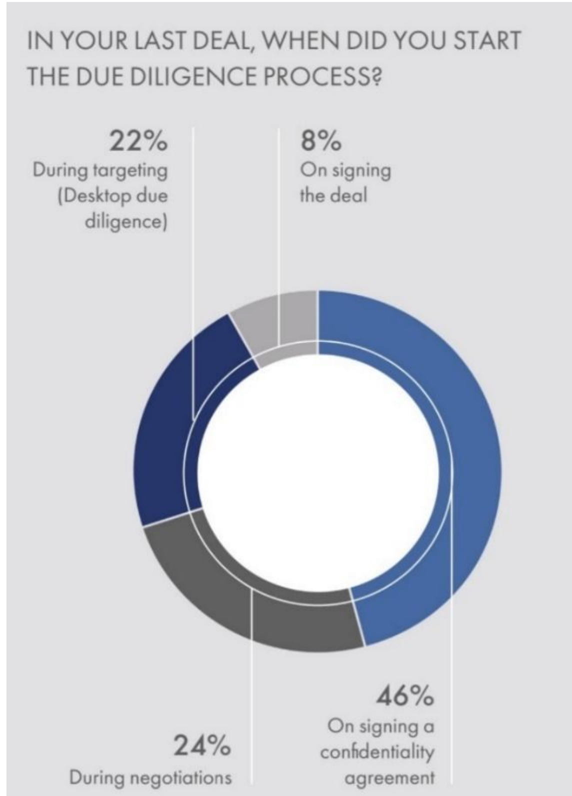

Figure 2, Source: RR Donnelley and Mergermarket Survey[11]

In a report prepared by RR Donnelley with Mergermarket, after conducting a survey of 50 managing directors and financial advisors, out of which 46% of them revealed that due diligence helps them gain a better understanding of what they are getting themselves into, while 38% said, “For us the biggest purpose of the due diligence process is to find any potential risks that we can face.”[12]

[9]S. Katarki and A.V. Thakur (n 8).
[10]Mergermarket and RR Donnelley Survey (n 7) 8.
[11]ibid.
[12]Mergermarket and RR Donnelley Survey (n 7) 8.

In the similar survey, 22% of the candidates revealed that they began their due diligence exercise, right before they started their last deal, while 46% took up the due diligence only when they found themselves entering into certain confidentiality agreements.[13]

One of the M&A financial advisors said, "We do not mind taking our time− if we are expanding into a new region; we need to have a good understanding of the company, the risks involved and how to adjust."[14]

Intellectual Property due diligence forms a tiny but integral part of the entire due diligence process, for they have the capacity to add value to the transactions as well as disrupt it.

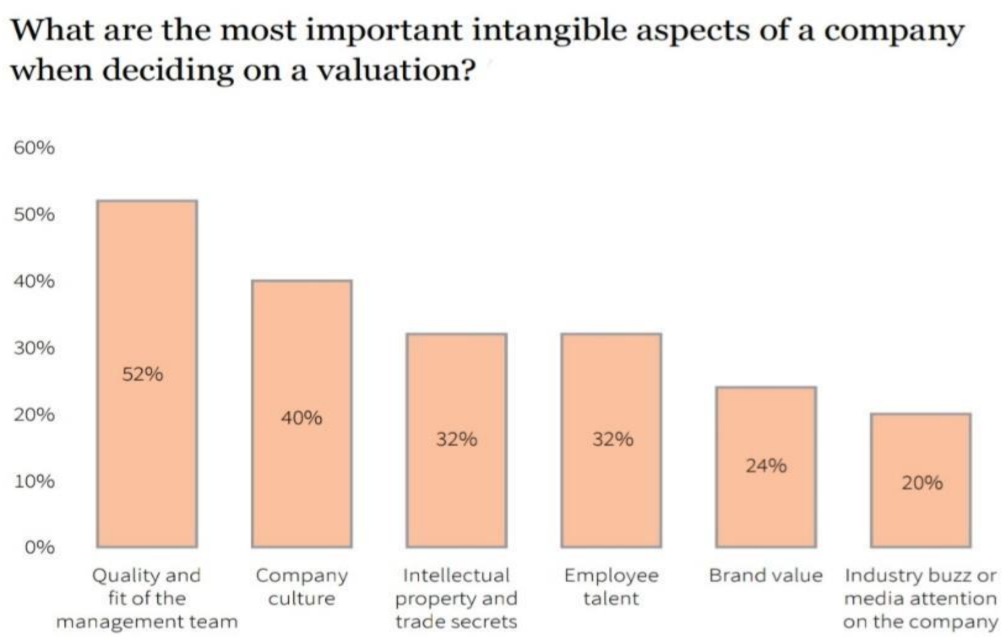

Figure 3, Source: Mergermarket and Firmex[15]

[13] ibid.
[14] Mergermarket and RR Donnelley Survey (n 7) 8.
[15] Mergermarket and Firmex, 'M&A Valuation: Trends, Challenges and Horror Stories' (2017) 1, 6 <https://www.mergermarket.com/assets/Firmex_Q3%202017_Newsletter_Final_0.pdf> accessed 23 May 2021.

In Q4 2016, Merger market carried out another survey involving 25 senior executives at investment banks, private equity firms and corporations, wherein 32% of them answered in favour of intellectual property and trade secrets, while 24% said it is the brand value that helps them decide on a valuation.[16]

When we talk of Intellectual Property, as an important underlying subject matter of any transaction, whether it involves purchasing of another company's intellectual property rights, or licencing of one's own IPs or procuring another's IP on a licence, the idea is that just like any other transaction involving tangible asset, intellectual property related transactions also come with rights, liabilities, obligations, liberties, and risk. However, owing to the complexity of deals involving IP, it is difficult to predict future cash flows from such an IP. Though we can have estimates once we undertake IP valuation, there are multiple issues attached with an IP such as negative reinforcement of IP, unseen market factors challenging the validity of IP, the ownership attached to such an IP, etc. Therefore, when it comes to IP, some extra diligence, caution and care would always be advised before concluding such a deal.

IP due diligence is primarily about "analysing the intangible assets of a business, checking valid intellectual property rights subsisting therein and scope of their protection, analysing the risks involved with respect thereto, and in turn, assessing their potential value."[17]

B. Relevance of IP Due Diligence: Some IP "Un-Due" Diligence Case Studies

Intellectual Property Rights reflect the strength of the company, and with positive reinforcement of the same, they have the capacity to fuel any M&A transactions, which not only gives the acquiring firm access to the use of IP of the target firm, but also reduces litigation and licensing costs. Since IPs are territorial in nature, due diligence demands recognition of differences of legal protection in the potentially attractive jurisdictions as well. A properly conducted IP due diligence carried out by skilled IP lawyers and experts along with cleverly drafted contractual provisions has the ability to contribute towards the acquirer's value enhancement. However, informational asymmetries and lack of vigilance have the reputation of "what can go wrong" procedure,[18] as can

[16] ibid.
[17] S. Katarki and A.V. Thakur (n 8).
[18] Ivona Skultetyova, *Intellectual Property in Mergers And Acquisitions: Deal Maker Or Deal Breaker?* (Tilburg University, 2012) 16.

be seen in the following IP "Un-Due" Diligence case studies involving famous giants Volkswagen, Apple, and Clorox.

i. Rolls Royce-Volkswagen-BMW Saga

In 1904, Charles Rolls and Henry Royce entered into partnership to start Rolls Royce, which is the absolute pinnacle of luxury when it comes to cars. It has been a brand of excellent quality and prestige from its beginning, and only the elite could put their hands on it. In 1931, Rolls Royce purchase "Bentley" that helped the company cater to the "sporty" end of the market.[19] After the Second World War, the company started manufacturing engines for defence and civil aircraft under the name Rolls Royce PLC. However, in late 1960s, the mismanaged development of its advanced jet engine, the firm was adversely affected. The Consequent cost over-runs exceeded so much so that by 1971, they were not only forced to liquidate their business, but also divided the vehicle and aviation companies into two separate units.

In 1973, Rolls Royce Motor Cars Ltd. was formed, which was acquired by Vickers PLC, the defense manufacturer in the year 1980.[20] However, the "Rolls Royce" trademarks were still owned by Rolls Royce PLC, and Rolls Royce Motor Cars Ltd. had only the license to use that trademark. One of the clauses in the trademark licensing agreement provided, "While Rolls Royce Motor Cars Ltd. would have the rights to manufacture Rolls Royce and Bentley motor vehicles, Rolls Royce PLC would maintain exclusive control of the Rolls Royce mark in the event Rolls Royce Motor Cars Ltd. (licensee) was sold to a foreign owner."[21]

Again, in 1997, Rolls Royce Motor Cars Ltd. ran into certain financial difficulties, while its parent company, Vickers PLC was focused on achieving "strategic growth in marine, propulsion equipment and turbine components,"[22] that it ended up announcing the sale of Rolls Royce Motor Cars Ltd..[23] On March 30, 1998, BMW made a $560 bid for the same.[24] Rolls Royce and BMW,

[19] Terence J. Lau (n 2) 3.
[20] Reuters, 'Company News: Vickers to keep Rolls-Royce Unit' *NY Times* (New York 28 April 1990) <https://www.nytimes.com/1990/04/28/business/company-news-vickers-to-keep-rolls-royce-unit.html> accessed 24 May 2021.
[21] Terence J. Lau (n 2) 4.
[22] ibid. See, Beatrix Israel, 'Vickers: The Rolls-Royce Auction is on' *Automotive News Europe* (Michigan, 30 March 1998) <https://europe.autonews.com/article/19980330/ANE/803300846/vickers-the-rolls-royce-auction-is-on> accessed 24 May 2021.
[23] Beatrix Israel (n 22).
[24] ibid.

both delivering power for use on air and land, shared a long history. BMW, at the time of sale, was supplying V12 and V8 engines to Rolls Royce for its Silver Seraph and Bentley Arnage models, respectively, and had a clause in the supply agreement which stayed, "BMW has the right to cancel the supply of engines with twelve months' notice, if Rolls Royce Motor Cars Ltd. is sold to another car company, or three year's notice, if it was sold to a non-motor vehicle manufacturer."[25]

In April, Volkswagen AG raised the bid to $720 million, which was again raised to $795 million, by July, and was accepted by Vickers on June 5, 1998.[26]

What follows next was a bolt from the blue, quadruple times, when Volkswagen learned about the following events:[27]

a. Rolls Royce PLC asserted its exclusive rights over the overlapping double "R" Rolls Royce trademark as part of 1973 trademark-licensing agreement;
b. Vickers PLC only sold Volkswagen the administrative headquarter, nameplates, production facilities, spirit of ecstasy mascot, the old factory and the British labour force− implying all the tangible assets, while leaving out the valuable intangible assets;
c. The German car-maker, BMW served a twelve months' notice to Volkswagen notifying that it would no longer supply the V12 and V8 engines for the Silver Seraph and Bentley Arnage models; and
d. The BMW bought the irrevocable rights in "RR" trademark, for $65 million, from its technology and manufacturing partner, Rolls Royce PLC.

While Volkswagen thought, it was purchasing the company, including both its tangible and intangible assets, but in reality, it purchased a half-empty box. The situation became worse for Volkswagen as despite investing hundreds of millions of dollars, it had neither the trademark nor the engines, and that it was impossible for Volkswagen to re-engineer the Rolls Royce and Bentley to use other engines. The twelve months' time was also nothing to re-stablish Rolls Royce label, and that the brand-identification mark was with BMW.

[25]Terrence J. Lau (n 2) 4.
[26]ibid.
[27]Terrence J. Lau (n 2) 4-5.

This led to signing of a MOU between the Volkswagen and BMW, on July 28, wherein, Volkswagen, on one hand, retained the factory in Crewe, some 2400 workers, and the Bentley trademark,[28] and BMW, on the other hand, agreed to continue supplying engines and components to Volkswagen, until 2003, and also allowed Volkswagen to use the Rolls Royce mark for free until December 31, 2002, after which BMW shall take away the brand name and would establish a new "Rolls Royce Motor Cars Ltd.",[29] and Volkswagen would manufacture Bentley under the name "Bentley Motor Cars Ltd."[30]

As negotiated, Volkswagen continued to manufacture and produce Rolls Royce from 1998-2003, until BMW, in another clever move, took advantage of the time in hand, and build a new Rolls Royce administrative headquarters and production facility in West Sussex, and a new product named "Phantom".

Though Volkswagen still owns the rights in Bentley, the skilled workforce, but it ended up selling Rolls Royce to BMW in 2003, making BMW the exclusive manufacturer of Rolls Royce Motor Cars Ltd.

This case study shows the importance of clearly establishing a proper due diligence and evaluation to ensure that a business transaction includes not only purchase of tangible assets, but also intangible assets. While it is an axiomatic situation that one would always assume a big automobile giant like Volkswagen to have spent another set of millions so as to divert all its Trademark Attorneys and field experts towards a thorough IP-specific Due Diligence check, before concluding such a costly deal. What made Volkswagen take such a disastrous decision is not known, but certainly, Volkswagen's poor IP due diligence and BMW's smart IP due diligence can be said to act as the functional factor in the whole playout.

This is how it highlights the relevance of IP rights in such business deals.

ii. Apple v. Proview (Schenzhen): Trademark Scuffle over "iPad" in China

[28] ibid.
[29] Terrence J. Lau (n 2) 4-5.
[30] Dirk Beveridge, 'BMW Buys Rolls-Royce Brand Name' *CBS News* (28 July 1998) <https://www.cbsnews.com/news/bmw-buys-rolls-royce-brand-name/> accessed 24 May 2021.

a. Schenzhen Proview and "唯冠電子: Proview Electronics Co., Ltd. (Taiwan Proview), the two sister companies, are owned and managed by "唯冠国際: Proview International Holdings Ltd., a Hong-Kong listed-company.[31]
b. In 2000, Proview Schenzhen successfully registered "iPad" (stylized) and "IPAD" trademarks in China, while Taiwan Proview obtained exclusive rights over eight "iPad" trademarks in Mexico, Singapore, EU and South Korea.[32]
c. In 2005, Apple was preparing to introduce its tablet terminal "iPad" in European market, when it realised that Taiwan Proview had exclusive rights in the "iPad" trademark, but is not being used in the market. On the ground of non-use, Apple filed a revocation application for the concerned trademark in the UKIPO, however, it failed.[33]
d. In 2009, Apple disguised under the name of a UK-based firm, IP Application Development, abbreviated as "IPAD", approached Taiwan Proview, and purchased from it the right to use the "IPAD" trademark, globally, for $55,000 (approx. £35,000).[34]
e. In 2010, after launching its tablet PC bearing the trademark "iPad" in the United States, Apple entered into a transfer agreement with the UK-based firm so that it can purchase all the trademarks from it at £10 (approx. $14.14). Later, in September, "iPad" tablet entered into China.[35]
f. After entering the Chinese market, Apple learned that in China, Proview Schenzhen owns the trademarks "iPad" (registration no. 1682310) and "IPAD" (registration no. 1590557) since 2001 for a "desktop terminal with touch-screen display called the

[31] Kazuhiro Matsumoto, 'Intellectual Property Rights in China: Learning Through Two Case Studies' (LinkedIn 14 October 2016).
<https://www.linkedin.com/pulse/intellectual-property-rights-china-learning-through-two-matsumoto> accessed 24 May 2021.
[32] NiuYie Editor, 'Lessons Learned From Apple's Defeat in IPAD Trademark Case in China: The Role Of IP Lawyers In Corporate Investment and Finance Transactions' *NIUYIE* (8 May 2017).
<http://niuyie.com/lessons-learned-from-apples-defeat-in-ipad-trademark-case-in-china-the-role-of-ip-lawyers-in-corporate-investment-and-finance-transactions/> accessed 24 May 2021.
[33] NiuYie Editor (n 32).
[34] ibid.
[35] Kazuhiro Matsumoto (n 31).

Internet Personal Access Device (abbreviated as "IPAD")"[36], and not Taiwan Proview.[37]

商标的详细信息

注册号/申请号	1590557	国际分类号	9	申请日期	2000-01-10
申请人名称(中文)	唯冠科技(深圳)有限公司	申请人地址(中文)	广东深圳市沙头角保税区21,23北		
申请人名称(英文)		申请人地址(英文)			
商标图像	IPAD	商品/服务列表	计算机;计算机周边设备;显示器(电子);光通讯设备;电视机;收音机;照相机(摄影);电子防盗装置;摄像机;电池; 查看详细信息 …	类似群	0901 0907 0908 0909 0920 0922
初审公告期号	776	注册公告期号	788		
初审公告日期		注册公告日期			
专用权期限	2011年06月21日 至 2021年06月20日		年		
后期指定日期		国际注册日期			
优先权日期	无	代理人名称	深圳市精英商标事务所		
指定颜色		商标类型	普通商标		
是否共有商标	否	备注			
商标流程	撤销三年不使用 续展 转让				

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Fig. 1: Source: Kosuke Suzuki[38]

商标的详细信息

注册号/申请号	1682310	国际分类号	9	申请日期	2000-09-19
申请人名称(中文)	唯冠科技(深圳)有限公司	申请人地址(中文)	广东深圳市沙头角保税区21,23栋北		
申请人名称(英文)		申请人地址(英文)			
商标图像	iPAD	商品/服务列表	计算机;计算机周边设备;显示器(电子);电传真设备;光通信设备;影碟机;电声组合件;计算机软件(已录制的);与计算机连用的打印机;照相机; 查看详细信息 …	类似群	0903 0908 0909
初审公告期号	799	注册公告期号	811		
初审公告日期		注册公告日期			
专用权期限	2001年12月14日 至 2011年12月13日		年		
后期指定日期		国际注册日期			
优先权日期	无	代理人名称	深圳市精英商标事务所		
指定颜色		商标类型	普通商标		
是否共有商标	否	备注			
商标流程	续展 异议 异议复审 转让				

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Fig. 2Source: Kosuke Suzuki[39]

g. On one hand, Proview Schenzhen was claiming exclusive ownership rights over the two registered marks, and on the other hand, Apple claimed to have purchased the rights for the same from Taiwan Proview, which extended throughout the mainland China. Proview Schenzhen said that the rights that have been assigned to Apple by Taiwan Proview had no connection with Proview Schenzhen.[40]

h. When Proview Schenzhen refuted Apple's claims, Apple along with its UK-based IP firm, in the year 2010, filed a case against Proview Schenzhen in The Schenzhen Intermediate People's Court claiming a compensation of RMB 4million for the economic loss suffered by them.[41]

i. The case was admitted on April 19, 2010, where defendant Proview Schenzhen asserted, "As the Trademark Transfer Agreement was concluded between the UK IP and Taiwan Proview, the transfer of the two China-registered trademarks owned by

[36]ibid.
[37]Kazuhiro Matsumoto (n 31).
[38]Kosuke Suzuki, 'Background of the iPad China Trademark Case', MBP Japan (Tokyo, February 2012), https://mbp-japan.com/tokyo/suzuki/column/1315553/.
[39] ibid.
[40]Kazuhiro Matsumoto (n 31).
[41]NiuYie Editor (n 32).

the Defendant apparently constituted unauthorised disposition, and, therefore, had no effect on Proview Schenzhen, notwithstanding the fact that it was the subject-matter specified in the Agreement."[42]

j. Apple asserting its claims said, "The transfer of the subject trademarks was a collective transfer transaction, and the signing of the transfer agreement by Taiwan Proview created an apparent agency with Proview Schenzhen, therefore, the Trademark Transfer Agreement was valid."[43]

k. The Court, however, rejected the claims made by Apple, and refuted the "apparent agency argument," as baseless. The Court held "In commercially obtaining another person's trademarks, the Plaintiffs shall have a higher duty of care which required them to enter into a trademark transfer agreement with the trademark right holder, and complete necessary trademark transfer procedures, in accordance with the Chinese laws."[44]

l. The case went in appeal to the High Court of Guangdong Province. Eventually, the court asked both the companies to enter into a settlement agreement, and on June 25, 2012, Apple and Proview Schenzhen settled the claims, following which Apple paid USD 60 million to the defendant, and in exchange, Proview Schenzhen lifted the ban on "iPads" made by Apple, that were prior to the agreement blocked by Chinese Customs from entering into and going out of China.[45]

The moral of the story is that had Apple conducted a proper due diligence checks prior to entering into the Chinese market, it could have learned about the true ownership of the two registered trademarks withheld by Proview Schenzhen since 2001, and that Proview Schenzhen was using the same since 1998, even before Apple starting manufacturing the iPad in 2002. Along with this, Apple also failed to take note of the fact that Chinese Trademark Law requires that after the trademark rights transfer procedure is done, it is mandatory for the transferee to get its trademark registered and approved by the Chinese Trademark Office.[46] It

[42] NiuYie Editor (n 32).
[43] ibid
[44] NiuYie Editor (n 32).
[45] Kazuhiro Matsumoto (n 31).
[46] NiuYie Editor (n 32). *See*, Kazuhiro Matsumoto (n 31).

is difficult to even imagine that company like Apple could also make a costly and embarrassing error, both in judgment and takeover transactions. All it suggests is that a slight vigilance and a timely due diligence exercise could have saved Apple from paying compensation to Proview Schenzhen, irrespective of the amount and Apple's financial capabilities, along with being pulled off from the shelves in China for some time.

iii. Crolox and Pine-Sol Saga

a. "PINESOL" (without the hyphen) was launched as a detergent in the year 1929, and filed for trademark registration at the USPTO. However, USPTO denied the registration on the ground that "PINESOL" is similar to its competing trademark "LYSOL", and could cause likelihood of confusion in the minds of the consumers.[47]
b. Despite the refusal by USPTO, "PINESOL" continued using the mark on their products, which made "LYSOL" file a suit against them. However, in 1956, both the companies reached an agreement putting three restrictions on the use of "PINESOL" trademark:[48]
c. The mark "PINESOL" would be separated by a hyphen as "PINE-SOL" in order to avoid any confusion with "LYSOL";
d. The mark "PINE-SOL" would be used only on those products which consist of "pine oil" as an active ingredient;
e. The brand has to illustrate "pine" or "evergreen trees" along with the mark "PINE-SOL" on its products.
a. In return, "PINE-SOL" was permitted to be used as a "general household cleaner consisting primarily of pine oil"[49] or as a "pine oil cleaner, disinfectant and deodorant,"[50] and that it could even expand its market by introducing other products.
f. In 1965, PINE-SOL expanded its market and started using the trademark on aerosol spray disinfectant, for which LYSOL sued American Cyanamid, the owner of PINE-

[47] Linda A. Kerns, 'Limitations in Trademark Agreements are Not Trade Restrictions' (1997) 9 LOY. CONSUMER L. REV. 310, 311.
[48] Linda A. Kerns (n 47).
[49] ibid.
[50] Linda A. Kerns (n 47).

SOL and restricted the use of the trademark to cleaning products, except aerosol spray disinfectant, as part of the 1967 agreement.[51]

g. In 1983, when LYSOL started selling "LYSOL PINE ACTION", Cyanamid sued LYSOL for unfair competition, trade-dress infringement and violation of the 1967 agreement.[52]

h. In 1987, Sterling Winthrop, Inc., the owner of LYSOL sued Cyanamid for using "PINE-SOL" trademark on non-aerosol pump spray, which prompted both the companies to enter into a new agreement, known as the 1987 agreement, which placed the following restrictions:[53]

i. The use of PINE-SOL mark on disinfectant products was limited to two products per geographic area;

j. The use of original PINE-SOL product was restricted to a cleaner, and not as a disinfectant;

k. The products of PINE-SOL could include only all-purpose generic cleaners.

l. PINE-SOL was allowed to market a "multi-purpose pump spray household cleaner with disinfecting properties,"[54] and in exchange LYSOL was permitted to market and sell "LYSOL PINE ACTION CLEANER."

m. In the year 1990, CLOROX Company purchased the rights in PINE-SOL's business as well as the trademark from the owner, Cyanamid, for $465 million, with a view to cash on the strength of the mark.[55]

n. However, CLOROX purchased PINE-SOL which was subjected to the 1987 agreement that not only laid down detailed restrictions on the manner in which PINE-SOL could advertise and package its products, but also limited the type of products PINE-SOL could sell.[56]

o. When CLOROX attempted to diversify its business, following which a television commercial advertised CLOROX PINE-SOL's product, Sterling filed a suit for the

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[51] Linda A. Kerns (n 47).
[52] ibid.
[53] Linda A. Kerns (n 47).
[54] ibid.
[55] Marc Lieberstein and Gwen Peterson, 'Putting the Diligence in Intellectual Property Due Diligence: Cautionary Tales of Those Who Didn't' (2016) 25:2 NYSBA BRIGHT IDEAS 1, 1.
[56] Marc Lieberstein and Gwen Peterson (n 55) p. 2.

grant of permanent injunction of the commercial as the same was in violation of the advertising restrictions placed in 1987 agreement. The court granted the injunction in favour of Sterling.

p. However, CLOROX went about challenging the terms and conditions in 1987 agreement, alleging restraint of trade, furthering of monopoly by LYSOL, thereby violating the Sherman Antitrust Act.

q. The court rejected all the allegations placed by CLOROX and held, *"The 1987 agreement only limited CLOROX's use of the PINE-SOL mark, and not CLOROX's ability to compete with the LYSOL brand. Thus, the agreement did not constitute a violation of the Sherman Antitrust Act under a "rule of reason" analysis."*[57]

2. GENERAL REQUIREMENTS IN AN IP DUE DILIGENCE EXERCISE: QUATERLY CHECKS

Every business and every IP-driven transaction has its own set of requirements, however, there are following quarterly checks that are a must to follow in all the IP due diligence exercises:

A. Identification of relevant "protected" and "protectable" subject-matters under IP laws[58]

When we talk about IP due diligence, the first thing that is required to be done is to locate the principal IP, which is already "protected," in the sense, "registered," and with respect to which one needs to be cautious. Once such IP is identified, the next step is to identify other IPs that are capable of being detected and acquired as well. These could be identified by accessing the target company's IP portfolio, which contains the list of IPs that they associate themselves with, whether as owners or licensees, and also information regarding their pending applications, which boosts their entire portfolio up. So, this portfolio will only reflect the IPs that the targeted entity has already figured out for itself, and not the unacknowledged and abandoned IP which could be protected, for this the acquirer company will have to dig into the overall information of the company, including its departments, working, IP policies in place, etc. There could also be a possibility of the acquirer company having more IP acquisitions in

[57]Linda A. Kerns (n 47) 4.
[58]S. Katarki and A.V. Thakur (n 8).

the future because of this underlying, unearthed, uncovered, unattended IPs, which will be revealed to it once it undertakes a thorough IP check.

B. Status Check: Analysis of IP rights over the subject matter [59]

This step only focuses on the registrability *aspect of the IP*, i.e., whether the identified IP is registered in favour of the target company, and if there are legitimate rights available over this IP. In addition, it is important to check if the subject-matter in question is sufficiently protected by all the applicable IPs. If a certain subject-matter has a possibility of registration, and is not registered, the reasons for the same are also to be known. If there exist any pending applications, or if the registration was applied for but rejected, all of this is mandatory to learn through this status check.

C. Validity Check: Check for applicable territories and terms[60]

The next step is to check whether the protection acquired is still subsisting and is valid or not. If any renewal is in line, or there are any revocation or cancellation proceedings going on. It is also important to see if the registration is subjected to any terms and conditions that either limit the jurisdiction or territories to which such IP exists, say, if it is just a domestic or national registration, or is it also protected across other international jurisdictions; or if there are exist any other limitations on the same. The term of protection could vary with territories, so it is important to keep a check of that.

D. Ownership Check: Check for the origin of IP rights creation[61]

This is one of the most essential requirements of the IP due diligence exercise, which necessitates checking if the ownership in the identifiable IP vests with the target company or not because ultimately if the target company does not have the rights in IP, it cannot transfer the same to the acquirer company. At times, there may exist multiple associated parties, such as the parent company, subsidiary company, or foreign associate companies, which make it a possibility for such ownership in IP to vest with the IP Holding Company, and the targeted company could merely possess the limited right to use the IP. There may also exist co-ownership, which might make any such transfers a complicated deal.

[59] S. Katarki and A.V. Thakur (n 8).
[60] ibid.
[61] S. Katarki and A.V. Thakur (n 8).

E. Claim Check: Third-Party's Claim on the IP rights involved[62]

The next important step requires identification of any third-party claims in the relevant IP, such as the existence of any license agreements, franchise agreements, joint-venture agreements, distributorship contracts, assignment deed, Memorandum of understandings, etc. Scrutiny of all such agreements is mandatory to learn the exclusivity the acquirer company would get from such transaction. At times, third-party rights or interests could accrue unintentionally, or there might be encumbrances such as lien, mortgage, etc. attached to the concerned IP, the thorough knowledge of which could be gathered from the records of the relevant IP office or the records of the Registrar of Companies.

F. Conflict Check: Conflicts with Third-Party Intellectual Property Rights[63]

Claim check and Conflict check are almost a related concept, but different. In Claim check, when we talk about third parties having any interest or claim, it is generally focused on a third party right that may have been created, say by way of a license, or by way of using the IP as a security right so as to secure a credit amount, similar to a mortgage. However, when we talk about *"conflicts with third party,"* this is the aspect that speaks of infringement. Any pending litigations, or any dispute where the target company may have been alleged to have infringed or violated any rights of the third party accrued therein, needs a proper check, so as to avoid any future claims that the acquirer firm should have known in the first place.

3. STEPS IN DUE DILIGENCE EXERCISE

In order to carry out the quarterly checks in an organised manner, there are following specific steps that the Acquirer company must undertake. These steps are though not rigid, but are the most preferred when conducting IP Due Diligence−

i. Set a Proper IP Due Diligence Team,[64] comprising of intellectual property rights attorney and field experts;

[62] ibid.
[63] S. Katarki and A.V. Thakur (n 8).
[64] ibid.

ii. Prepare and send an IP Due Diligence Checklist,[65] which would comprise of queries related to existing IP and the corresponding ownership of the same; if the IP has been registered, or the application is pending; along with the specific information required to understand the standing of the target company;

iii. Separate the IP assets of the target relevant for the transaction from the irrelevant ones.[66] This will ensure that the acquirer company knows which are the relevant IP assets for acquisition and which are the irrelevant or the ones that can be looked into later. At times, there might exist supplementary or associated IP rights along with the relevant IP rights, perusal of which is necessary to streamline the focus of the main transaction;

iv. Read all documents carefully[67] with utmost precision without any failure or any possibility of there being an error because once the acquirer company acquires it with flaws and risks, the entire burden will shift to the latter. Whether it is an assignment deed, or a license agreement, or franchising agreement, technology transfer agreement, registration certificate, renewal certificate, non-disclosure agreements, employer-employee certificate, etc. a thorough reading of all the clauses is advisable to understand the nature of IP policy the firm follows, and if there exist any limitation or restriction that might hamper the future business flow of the acquirer firm;

v. Requisition for additional information based on the information.[68] The target company usually provides the fundamental information that the acquirer firm shall need in order to carry out the preliminary perusal of the Target company. It is not necessary that the target company shall disclose anything and everything from their end, but if the acquirer firm requires any additional information based on the information that the company has already furnished, or any other information received from the outset that needs clarification, the acquirer firm must ask the same.

vi. Verify facts and confirm information received from the target,[69]or even from any outside source to avoid any confusion. Any contradictory information related to a

[65]S. Katarki and A.V. Thakur (n 8).
[66] ibid.
[67]S. Katarki and A.V. Thakur (n 8).
[68] ibid.
[69]S. Katarki and A.V. Thakur (n 8).

particular IP asset received from the records of IP offices or any IP-related database or google database, the same must be verified at all costs from the target company. It is not advisable to rely on the face value of the target company. Of course, display of trust is a must, but verification of factual data must be done, including any cost required to pay as part of a judgment, if any, passed against the target company, and the reason for not paying it until now.

vii. Analyse protected and protectable IP rights,[70] and carry out all the quarterly IP checks, like ownership check, claim check, conflict check, status check, validity check, etc.

viii. Try and resolve issues, if any, in respect of IP rights.[71]

ix. Define the nature of IP agreements required for the transaction.[72] Once all the quarterly checks are concluded, the acquirer company needs to finalise whether they want the actual agreement, or the deal to work out, so that the entire IP rights could be chalked out, and how, when and through what manner all would be transferred could be further discussed.

x. Provide a final diligence report on the benefits and the risks associated with the relevant IP,[73] and accordingly, choose to finalise or not to finalise such a transaction.

xi. Document, execute and record the IP agreements,[74]if the acquirer company chooses to go ahead with the deal.

4. CONCLUSION

The increasing importance of IP rights in the transactions of any company cannot be denied. They have the capacity to, in fact; provide a competitive edge over the rival firms. IP rights, though play only a tiny role in all kinds of bigger transactions, but they are the most valuable considerations that can either make or break a business. However, the approach of many companies, including the Giant tech Co. Apple, or the renowned luxurious Car Company, Volkswagen, and even one of the dominant market players in the field of general household cleaners and bleaches, Clorox, have been disappointing at one point of time, which made them unnecessarily pay hundreds of

[70] ibid.
[71]S. Katarki and A.V. Thakur (n 8).
[72] ibid.
[73]S. Katarki and A.V. Thakur (n 8).
[74] ibid.

thousands of million, over a deal that they could have possibly avoided, had they been vigilant and actively conducted an IP Due Diligence exercise.

In fact, history is filled with such examples, where companies, during bigger corporate mergers and acquisitions, or even a simple licensing deal or litigation, have taken extreme steps that reflected their costly and embarrassing errors in judgment, and proved nothing short of a Winner's curse. The companies laid back attitude towards the IP rights and the associated informational asymmetries through lack of disclosure between the parties, improper composition of due diligence team, comprising of transactional lawyers and IP counsels had portrayed a lack of comprehensive understanding of IP-driven transactions. The companies avoid IP searches for it involves a lot of time and money, but such high-stake investments need more IP searches than other investments, and companies learn about the missed opportunity and the wreckage they create only during the time of litigation, which has the potential to sabotage the corporate reputation as well as the careers of people employed with such companies.

This could, however, be easily remedied by:

i. Engaging qualified IP Attorneys, and subject-matter experts, as part of the IP due diligence team, each performing a clearly-defined task and who could gauge the utility and consequences of every transaction in line.

ii. The team could carry out IP-specific due diligence, study the relevant market, the IP laws of the concerned jurisdiction, and then advise the company to play upon their strengths, while knowing their weaknesses and resolving them in time.

iii. Special precaution could be taken while reading onto the IP related documents carefully so as to not miss out on important terms and conditions associated therewith. Other company related documents should also be read from the IP perspective to make proper decisions.

iv. Make the company understand the value and worth of its IP rights, and be vigilant while dealing with any third-party claims.

v. Carry out all the quarterly IP checks to avoid last minute pain, and lifetime losses.

vi. Communicate seamlessly and honestly with the person performing the search, and double-check every finding before pursuing upon it. The aim of the search must be entirely clear to the entire team working therein.

vii. A thorough IP Due Diligence could give an edge to the companies, who can cross-license their technologies or any other IP in order to set aside the potential infringement suit.

viii. The most important is to sign the confidentiality documents before revealing any of the trade secrets during the negotiation, because not always the negotiations result into a merger or acquisition.