

Private Acquisitions: Intellectual Property Issues (France)

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A Practice Note on how to deal with the intellectual property issues arising on a share purchase or the acquisition of a business in France.

This Note considers the issues that arise in share purchases or in the acquisition of a business in relation to intellectual property rights (IPRs). The objective when acting for a prospective buyer of a company or business is to ensure that the buyer acquires all the necessary IPRs to be able to operate and develop the business post-acquisition. The main objective of the due diligence is therefore to identify the relevant IPRs for the conduct of the business.

This Note is intended to provide comprehensive coverage of IP issues in connection with share and asset sales in an M&A transaction. It covers:

- The due diligence process, including:
 - the types of IPRs to be considered, depending on the nature of the business being acquired (see IPRs to consider in an M&A transaction); and
 - guidance on how to conduct IP due diligence, including issues to consider for the key categories of IPR (see Scoping the due diligence exercise).
- How the results of due diligence are typically evaluated and incorporated into the sale and purchase agreement (SPA) (see Addressing IP issues in the SPA).
- Post-completion issues, including additional filings that may be required or desirable (see Post-completion tasks relating to IP).

For more issues to consider when conducting due diligence, see [Practice Note, Due diligence on private acquisitions in France](#).

IPRs to Consider in an M&A Transaction

Patents

This right is granted to inventions that are new (*Article L. 611-11, Intellectual Property Code (IPC)*), involve an inventive step (*Article L.611-14, IPC*), are

capable of industrial application (*Article L.611-15, IPC*), and are not excluded from patentable subject matter (*Articles L. 611-10 and L.611-16 et seq, IPC*). For more information on the public sources of information available for conducting IP due diligence, see [Practice Note, Due diligence on private acquisitions in France: Intellectual property](#).

Patents are granted for a period of 20 years from the day the application is filed (*Article L.611-2, IPC*). Patents cannot be renewed or extended, except for pharmaceutical and phytopharmaceutical patents, the protection of which can be extended for a specific additional period of time. Utility certificates can be obtained for a period of ten years (this new duration replaces a six-year period, effective by 23 May 2020).

Trade Marks

To be registered as a trade mark, a sign must be represented in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor, distinctive, not deceptive, lawful and available.

The INPI is responsible for trade mark registration. By registering a trade mark with the INPI, the applicant obtains an exclusive right on the French territory for ten years, renewable indefinitely, to use the trade mark.

Registered Designs

To be registered, a French design must:

- Be novel.
- Have an individual character.
- Not have an appearance whose features are solely dictated by the technical function of the product.
- Not have an appearance whose exact form and dimension must necessarily be reproduced to allow it to be mechanically associated with another product in

a manner allowing both of these products to perform their function.

- Be lawful.

The INPI is the office in charge of French design registration.

Protection starts from the date of the filing of the design application and lasts for a period of five years, renewable up to five times.

Unregistered Designs

Unregistered Community design rights enjoy protection on French territory, provided they are new, have an individual character and are made available to the public within the EU. EU unregistered design protection starts from the date on which the design was first made available to the public within the EU and lasts for a term of three years.

Copyright

Article L. 112-2 of the [Intellectual Property Code](#) (*Code de la propriété intellectuelle*) provides a non-exhaustive list of examples of works falling within the scope of protection. All types of works will qualify for copyright protection as long as they are "original". A work is considered as "original" if it bears the personal print of its author ([Cassation Court, 8 November 2017, n° 16-10.850](#)).

Copyright protection is granted without any formalities, by the mere fact of creation. French copyright grants the author two categories of rights: patrimonial rights and moral rights.

As a general principle, copyright protection starts from the date of creation of the work.

The moral aspect of the French copyright is perpetual, but the patrimonial aspect lasts 70 years, as from the author's death, the death of the last surviving co-author with respect to works of collaboration, the date of publication of the work with regards to pseudonymous, anonymous or collective works.

Trade Secrets

[Law no 2018-670 of 30 July 2018](#) relating to the protection of trade secrets, incorporating the [Trade Secrets Directive \(\(EU\) 2016/943\)](#).

Trade secrets are protected from unlawful acquisition, use and disclosure. The beneficiary of trade secret protection is the "legitimate holder", namely, "the person who lawfully controls it" ([Article L.151-2, Commercial Code](#) (*Code de commerce*)).

Three conditions must be met for a piece of information to benefit from protection as a trade secret:

- The information sought is not widely known among, or readily accessible to, persons familiar with this type of information by reason of their sector of activity.
- The information has commercial value, whether actual or potential, because it is secret.
- The lawful owner has taken reasonable protective measures (based on the circumstances) to guard its secrecy.
- ([Article L.151-1, Commercial Code.](#))

Databases

Databases, as defined by Article L. 112-3 aL.2 of the IPC, can be protected by two types of IPRs: copyright and sui generis database right.

- **Copyright.** This right protects the structure of the database. For a database to benefit from copyright protection, it must be able to demonstrate originality in the selection or arrangement of its content. To meet the originality threshold, French and EU judges require that the structure of the database constitutes an intellectual creation. The author must engage their creative capabilities "by making free and creative choices" ([Paris First Instance Court, 1 September 2017, n° 17/06908](#)).
- **Sui generis database right.** This right protects the content of the database. Protection under the sui generis database right is granted when "the obtaining, verification or presentation of the contents of the database shows that there has been a substantial financial, technical or human investment" ([Article L.341-1 IPC](#)).

Domain Names

The registration of a domain name allows a right of use during a specified period. This right of use is granted to the person who first requests the reservation. It is therefore the first-come, first-served rule that prevails.

To reserve a domain name, one must contact the French organisation in charge of managing it (the *Association française pour le nommage Internet en coopération* (Afnic) for ".fr" domain names).

Domain names are not protected as such by an intellectual property right. However, they remain an important intangible asset to consider in a corporate transaction, especially if the name that makes up the domain name is a key trade mark or a corporate name.

Scoping the Due Diligence Exercise

For the due diligence to be effective, it is essential to determine a precise scope of review with the buyer:

- What are the key products or services of the business?
- What are the key territories for the business?
- What are the key assets of the target company and what is the buyer's business plan?

This will allow the representative of the buyer to carry out precise enquiries and identify how the key assets of the company are protected, what is currently owned by the company and any dependence on third parties. The searches will rely on the information provided by the seller but also on public registers.

The key aim of IP due diligence is to identify the IPRs either owned or used by the target company that are necessary for the conduct of the business. The process for identifying relevant IPRs, differs, depending on whether they are:

- Registered or unregistered IPRs.
- Owned by the business or owned, or shared with, third parties.

Undertaking Due Diligence of Registered IPRs

Identifying registered IPRs can be as straightforward as a search on the relevant register to determine:

- That the claimed IPRs exist.
- The owner of the claimed IPRs.

For an explanation of relevant IP registers to search, see [Practice Note, Due diligence on private acquisitions in France: Intellectual property](#).

Sellers are usually able to provide an exhaustive list of all the registered IPRs they own. In a share purchase, the target company remains the registered owner of the IPRs, which will be acquired by the buyer by acquiring the target company itself. The main objective of due diligence regarding registered IPRs is therefore to verify the accuracy of the information provided by the seller. The findings will mainly rely on searches conducted on public registers and, to a lesser extent, on documents provided by the sellers such as assignment agreements.

The main information that should be verified regarding registered IPRs is as follows:

- The existence of the IPRs.
- The ownership of the IPRs.
- The territory they cover.
- Their expiry or renewal dates.
- Whether the IPRs have been licensed or pledged as security to third parties.

Existence of the IPRs

The existence of the IPR can be checked on the relevant public register by entering the registration number provided by the seller. This allows the representative of the buyer to verify that the key brands, products or services of the target company are actually protected.

Special attention should be given to IPR applications, as the title is not yet granted and can still be opposed by third parties. The opposition process varies, depending on the type of IPR, as follows:

- **Patents.** Any opposition to their registration must be filed within nine months following the publication of the notification of the grant of the contested patent.
- **Trade marks.** Third parties can file opposition proceedings within two months from the date of publication of the trade mark application, if a prior right that is already effective in France would be infringed.
- **Design.** Third parties cannot oppose the registration of a design during the registration process; the invalidity procedure can only be launched against a design once it has been registered.

Ownership of the IPRs

The buyer should check whether the target company is the registered owner of relevant IPRs. If the registered owner of the IPR is not the target company, they should ask for clarification from the seller. The IPRs can often be owned by a parent company and will therefore have to be assigned to the target company before completion. In some other cases, the IPRs may have been assigned without having been registered at the relevant intellectual property offices. In this case, the target company may not receive notice of potential oppositions or other office actions relating to the marks (as these will be sent to the current registered proprietor) and the assignment will not be binding on third parties who may acquire a conflicting interest in the trade marks in question.

If the IPRs are co-owned, the seller should provide information on how co-ownership is organised, notably regarding cost sharing. The buyer should also make sure that the share purchase will not affect the co-ownership and that the co-owners have given their consent, if necessary.

In a carve-out transaction, it is important to enquire whether the IPR is owned or used by the seller or any affiliate of the target not being acquired. If so, it is necessary to determine whether the IPR will be transferred or how the target will continue to use the IPR following the closing date.

Territory Covered

The IPRs should be protected in the relevant territories for the business. Therefore, it is important to determine the key territories for the buyer before the due diligence searches.

Expiry or Renewal Dates

This can be an important piece of information for the buyer, especially regarding patents which have a limited period of protection. If a patent is expiring soon, the buyer could be buying an empty shell.

Payment of Maintenance or Renewal Fee

The buyer will want to make sure that all the relevant fees relating to the IPRs have been paid and will be paid until completion. This can be warranted by the seller in the share purchase agreement.

Pledges over the IPRs

Public registers indicate if IPRs have been pledged. If so, this will affect the value of the IPRs and consequently the value of the target company, especially if its value depends on its intellectual property assets. The buyer will want to know to whom and for what reason the IPR has been pledged to properly assess the risk.

Licensing of Registered IPRs

Public registers indicate if IPRs have been licensed. However, the buyer should confirm with the seller that no licences have been granted in the meantime. After disclosure of all material licences, the buyer should be attentive to the following provisions: exclusivity, territory, duration, fees, termination, change of control, applicable law.

The target company may have licensed its IPRs to various companies within the same group or to separate entities. If licences are identified during the due diligence process, the buyer should consider the following key provisions in those licences:

- **Change of control (share purchases).** In a share purchase transaction, the buyer should gain control over the target company by purchasing all or a controlling portion of the outstanding shares. The owner of the assets does not change, although factual control of the company is taken over by the buyer. This will include taking control of the company-owned assets.

The representative of the buyer must first verify if the contractual relationship can survive the share

purchase agreement, or if the change of control of the target company leads to a potential termination of the licence. Given that the enforceability of change of control provision is formulated as an option of the licensor, the buyer will decide whether the risk associated with the potential use of this option is acceptable. To determine whether a change of control provision is going to be triggered, the agreement must provide a definition of the control.

- **Assignment (asset purchases).** An asset purchase transaction will mean acquiring the ownership of each specific asset. Each of the IPRs to be transferred will have to be listed to form the object of the transaction. Special attention should be given to contractual arrangements concerning the assignability of the rights covered by the licence, as, in accordance with the general rule of freedom of contract, the parties' intentions always prevail. If the contractual provision restricts assignability, the asset purchase transaction would infringe the clause prohibiting the assignment of the licensee's rights, even if the licensee's entire business is sold. In France, a licensee is rarely allowed to transfer its licence rights without the prior licensor's consent. The rationale behind the licensor's consent requirement resides in licensor discretion as to who can exploit its patented invention, copyright or trade mark. Therefore, if the buyer wishes to continue the contractual relationship, it will have to enter into a new licence with the licensee on completion.

If the licence survives the transfer, or can be assigned, the buyer should consider assessing if the current contractual provisions are adequate for its business plan. For instance, if the licence is granted on an exclusive basis, the buyer will not be able to license the IPR to expand the business by granting a licence to another distributor in a given territory. In addition, if the licence is essential to the business, the buyer should be attentive to termination clauses. Every licence should be analysed according to the buyer's intentions regarding the post-completion conduct of the business.

Undertaking Due Diligence of Unregistered IPRs

Unlike registered IPRs, it is not that easy for the seller to provide an exhaustive list of its unregistered IPRs, which mainly consist in copyrights and know-how. The value and the importance of unregistered IPRs depends on the industry to be acquired. For instance, in pharmaceutical or scientific fields, the know-how could represent the most substantive part of its value. Likewise, the value of a software company or a record company will significantly be based on its copyrights. It is important to have this in mind while conducting the due diligence.

Existence of Know-How

The buyer should ask the seller to provide, to the extent possible, an exhaustive presentation of the know-how developed by the company. This is not usually contained in legal documents; it is usually in more technical documents. This has the advantage that it contains information that will allow the buyer to understand the value of what they are buying.

Copyright

Under French law, a company cannot be the initial holder of a copyright. Creations are initially held by individual persons, in most cases employees, and have therefore to be assigned to the company. These assignment contracts should be provided by the seller. There is an exception to this rule for collective works, which are automatically attributed to the individual or natural person under the name of which the work is disclosed.

The representative of the seller should verify that the copyright assignments are compliant with the French Intellectual Property Code. French law is very strict on the formalism of copyright assignment. A valid assignment of copyright must expressly mention:

- The assigned rights.
- The assigned territory (this may be global).
- The duration of the assignment (this may be for the whole duration of intellectual property rights as defined by applicable laws, including any future term extension).

Checking That Unregistered IPRs Are Protected

The buyer should ask for the details of the protective measures taken by the target company to protect its know-how. This includes NDAs with commercial partners and service providers but also confidentiality clauses in employment contracts. The seller should present its confidentiality policy and all the steps taken to prevent misappropriation by a third party.

Licensing of Unregistered IPRs

Like registered IPRs, unregistered IPRs such as know-how or copyrights can be licensed to third companies from the target company. Unlike registered IPRs, the existence of these licences is not public and should therefore be requested to the seller. The buyer should be attentive to the following provisions and make sure they are aligned with its business plans:

- Scope.
- Exclusivity.

- Territory.
- Duration.
- Fees.
- Termination.
- Change of control.
- Applicable law.
- IPRs used under licence.

Due Diligence of IPRs Owned by Third Parties

It is quite common that a company uses and relies on third parties' IPRs. In a share purchase, the buyer acquires the target company itself and will in principle continue to benefit from all third parties' IPRs licences. However, this is subject to such licences being affected by the sale itself; this is typically the case if the licence contains provisions allowing termination in case of change of control of the target company.

Both registered and unregistered IPRs can be licensed. In both cases the buyer should consider the following issues to ensure that the benefit aligns with the buyer's business plan:

- **Scope of the licence.** This corresponds to the rights that are licensed to the target company.
- **Exclusivity.** The licence can be granted on an exclusive or a non-exclusive basis. If the licence is not exclusive, the buyer must be aware that the IPRs can possibly be granted to competitors or, if the licence is granted by a parent company, to other companies of the group.
- **Territory.** IPRs are usually granted for a specific territory. The territory can be a simple list of countries, but it can also be determined according to the scope and purpose of the licence. The buyer should verify the key territories of the business are properly covered. The territory for which the licence is granted can also have consequences on the development wished for by the buyer.
- **Duration.** The buyer should identify the duration of the licence and verify if it is renewable and, if so, whether it automatically renews or requires active renewal. This allows the buyer to assess how long it is permitted to use the IPRs and whether it will have to renegotiate the licence if it wishes. Renewals can result in increased licence fees.
- **Payment terms.** The cost of licensed IPRs is an important aspect as IPR licence fees can be quite high. The buyer will evaluate the cost with regards to different elements such as the exclusivity, the territory and the importance of the IPRs for the conduct of the business.

- **Termination.** Termination clauses must be identified by the buyer, especially termination for convenience as the licensor could be able to unilaterally terminate the agreement.
- **Assignability and sublicensing.** The buyer should verify if the IPR licences can be assigned or sublicensed to other entities, especially subsidiaries. This can have an impact on the buyer's business plans and wishes of development or outsourcing.
- **Change of control clauses.** This type of clause must be carefully analysed by the buyer as the sale of the business could result in change of control. A change of control can be defined by the licence itself or by reference to the French commercial code. Change of control clauses may require the written consent of the other party to the agreement before the share sale. Furthermore, a change of control clause may allow the licensor to terminate the agreement. The buyer should be fully aware of the different scenarios, especially if the business substantially depends on the licensed IPRs.
- **Applicable law.** Applicable law can have an impact on the interpretation of the licence, especially regarding the definition of change of control.

Due Diligence of Shared IP

Shared IP is quite common in industries involving complex technologies and scientific research. The seller should provide an exhaustive list of all agreements resulting in shared IP. This typically concerns research and development agreements, collaboration agreements, partnerships and services agreements leading to results protectable by IPRs.

These agreements must be analysed to assess what the target company owns and ultimately what the buyer is buying. The following information should be gathered:

- Ownership of background IP.
- Right of use of background IP (exclusivity, territory, duration, fees, assignability).
- Ownership of foreground IP (terms of ownership or co-ownership and related registration and maintenance rights and duties).
- Terms of revenue sharing.
- Commercialisation and exploitation of the new IPRs (right of use, exclusivity, territory, duration, fees, assignability).
- Presence of confidentiality clauses.
- Duration and termination clauses.
- Change of control provisions.
- Governing law and jurisdiction.

Litigation Affecting IPRs

Details of any proceedings or claims affecting the owned or used IPRs should be provided by the seller. Any pending litigation should be considered closely:

- What would be the consequences of the cancellation of a trade mark or a patent?
- Would any products or services have to be re-branded or called back in?
- Would licensees seek compensation?
- What would be the damages awarded in case of infringement?
- Did the target company provision the possible damages it could be sentenced to? More generally, what is the target's internal policy regarding infringement monitoring?
- What steps are taken to avoid infringing another party's IPRs and to monitor whether another party is infringing its IPRs?

The buyer's representative should also search online registers to check any opposition on pending litigation regarding the key IPRs identified by the buyer. Registers are not always exhaustive, but it is good first step.

Employment Contracts and Their Interaction with IPRs

Employment contracts can have a significant impact on IPRs ownership and should therefore be subject to an enquiry during the due diligence phase. To be effective, key employees should be identified. They are usually those involved in creative and inventive activities or in implementation of know-how.

French law sets some legal principles regarding ownership of certain IP created by employees.

Copyright Provisions

In the absence of a specific provision in the employee's terms of employment, the employee will own the copyright in anything the employee produces during his employment. Therefore, the buyer should verify that employment contracts provide that the employee agrees to assign the copyright in anything the employee produces. However, the presence of such a provision in the employment contract does not mean that the copyright will automatically be assigned to the employer. The buyer should therefore also ask for the confirmatory assignment agreements that were signed between the key employees and the target company on copyright work. Otherwise, the target company could regularise the situation and proceed to the required assignments.

However, if the employment contracts do not state that the employee is required to assign its copyright, the employee could validly refuse to assign anything.

For creations protected by copyright, the Intellectual Property Code sets a principle of nullity on “overall transfers of future works” (*Article L.131-1, IPC*). In other words, it is not possible to commit to transfer to the company, in advance, all future works not yet created, without any further detail or restriction.

Moral rights cannot be waived or assigned under French law; they are attached to the author of the work and are perpetual, inalienable, and imprescriptible. Moral rights comprise the following rights:

- Right of first disclosure of the work.
- Right of integrity.
- Right to claim authorship.
- Right to reconsider the use of the work and to withdraw the work from circulation.

Software Provisions

As an exception to the general rule that employees own the copyright in works they create (subject to subsequent assignments), copyright in software created by employees in the course of their employment can automatically belong to the employer unless provided otherwise by the employment contract (*Article L. 113-9, IPC*). The buyer should verify that the employment contracts do not provide any clause to the contrary.

Invention Provisions

The employer is the owner of inventions created by employees in the course of their employment and in connection with the inventive task that was entrusted to them in view of the functions defined in their terms of employment. Therefore, employment contracts should specify the employee’s function.

The employer can also claim ownership of inventions outside the employee’s mission subject to payment of a fair price. The buyer should therefore check that this optional ownership on such inventions is settled by employment contracts.

Evaluating Due Diligence and Presenting Results to the Buyer

Once the due diligence is completed, the buyer’s representative usually addresses to its client a summary report comprising key issues by degree of importance and related recommendations. This will allow the buyer to confirm (or not) its wish to pursue the share purchase,

but also to set adequate conditions to the seller if it wishes to make an offer.

The evaluation should allow the buyer to visualise the IPRs owned by the business. The IPRs should cover the key products and territories that were identified as essential. The buyer should also be aware of any dependencies on third parties, especially regarding key technologies or trade marks. Regarding dependency, assignments from parent companies to the target company could be recommended and negotiated with the seller. The buyer should also be aware of the consequences of the share purchase on current agreements with licensees and partners, notably due to change of control provisions.

Addressing IP Issues in the SPA

The following warranties are generally found in SPAs regarding IPRs:

- Ownership of the IPRs.
- Validity of the IPRs.
- Payment of registration, renewal, maintenance and other fees.
- Payment of royalties and licence fees.
- Absence, to the seller’s knowledge, of opposition, revocation, or invalidity proceedings in relation to the IPRs.
- Absence, to the seller’s knowledge, of any infringement by third parties of the IPRs and absence of any infringement by the seller to third parties IPRs.
- Absence, to the seller’s knowledge, of any proceedings, claims or other disputes involving the seller in relation to the IPRs.
- Absence, to the seller’s knowledge, of any right, title or interest in and to any IPRs of any employee or former employee.

Post-Completion Tasks Relating to IP

Gap Analysis and Regularisation

Post-completion, many buyers undertake a “gap analysis” of the target company to file additional trade mark applications regarding its key brands across important and material geographies. They may also consider filing trade mark records post-completion, in cases where the target company was not registered as the owner of the IPRs.

Owned IPRs

In principle, in a share purchase agreement, there is no need to assign any IPRs as there is no change of owner post-completion. However, the due diligence may uncover that some IPRs are owned by the parent company or another entity of the group, and these will need to be assigned or licensed to the target company so that it can continue to conduct the business.

Patents, trade marks and copyright assignments must be in writing. Regarding patents, designs and trade marks, registration of the assignment with European Patent Office (EPO) or INPI is required to make the right enforceable against third parties.

Patents licensing must be in writing and registration with the INPI is recommended, so that they are enforceable against third parties. Trade marks and copyright licences

are not required to be in writing, but it is highly advisable to do so, for evidential reasons.

There is no specific time frame to register licences or assignments. However, it is advisable to proceed with registration as soon as the agreement has been executed to ensure enforceability against third parties.

Licensed IPRs

In principle, the target company should continue to benefit from the licences IPRs post-completion. However, a change of control may allow the licensor to terminate the agreement or could outright trigger the automatic termination of the agreement. In such cases, the buyer will have to negotiate and enter into new licences, in accordance with its business plans.

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