

# Trade Mark due Diligence: Acquisition and Post Acquisition Issues and Compliances – Indian Perspective

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*Trade Mark due diligence is the process of analysing information concerning a target company's trade mark portfolio and assessing the risks, exposure and benefits associated with the proposed transaction. The potential acquirer will based on the results, analyse validity and risks of the trade mark portfolio, and its impact on the strategic short- and long-term business goals. This article discusses about the trade mark acquisition process and the major steps involved in the acquisition process.*

Intellectual property (IP) is finding enhanced importance by providing value for businesses in the increasingly globalised economy. A company's IP has emerged to become one of the cornerstones of its value, bringing about increased focus on IP issues in commercial transactions. It is important to identify and adequately analyse those IP issues because the ownership, validity, enforceability and transferability of a company's IP rights will directly impact the value of the transaction.<sup>1</sup>

The increased profile, frequency and value of IP related transactions have elevated the need for all professionals and IP owners to have thorough understanding of the assessment and the

valuation of these assets and their role in commercial transactions. A detailed assessment of IP assets is becoming an increasingly integral part of commercial transactions. Acquiring or investing in a business that own IP assets require expanding the scope and depth of due diligence. IP due diligence can also facilitate a company's thorough internal assessment of its own assets, whereas self-audit can help and enhance IP planning and management.

## Trade Mark and Trade Mark due Diligence

Trade Marks are word, phrase, symbol or design, or a combination of words, phrases, symbols or designs that are capable of distinguishing the goods

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1 Deborah Schavey Ruff Mayer, [http://www.buildingipvalue.com/05\\_NA/124\\_127.htm](http://www.buildingipvalue.com/05_NA/124_127.htm)

**Brand Valuation**

“Brand” plays a pivotal role in the branding and marketing strategies of companies, contributing to the definition of the image, and reputation of the company’s products. Creating a brand involves blending of resources in a unique way. The effectiveness of the blended is revealed through valuation. Brand building has much higher rate of return than most other investments made by the entrepreneur, major part of profit could not accrue from manufacturing but from branding. Brands created and nurtured in an appropriate manner, have the potential to generate revenue for years in the form of sales and also benefit due to the “good will” associated with the brands by the public.

Brand Valuation exercises help in detecting the strengths and weaknesses of the brand, helping companies to distinguish between strong brands and weak brands and allocate resources in the most appropriate way. As far as accounting is concerned, brand valuation helps in areas like balance sheet reporting, tax planning, licensing and franchising, mergers and acquisitions, litigations, investor relations and securitised borrowing.<sup>4</sup>

Brand valuation also helps the management to review brand decisions by linking investment made on a brand to the increase in brand value over a reasonable period of time. It reveals to the management, the disparities between its assumptions and the market realities pertaining to the brand.<sup>5</sup> ISO 10668, the standard on brand valuation laid down in 2010, acts as a comprehensive set of guidelines to be followed in a brand valuation exercise.

It is of critical importance for an acquirer, as well as for the vender to understand

*Goodwill is an umbrella concept and has been valued for a very long time*

and evaluate their real worth for negotiating the correct price. As the valuation report does not only indicate value, but also the report shows as to how the value has been worked out elaborating all assumptions, which provides the real insight and would be of great value to the acquirer.

**Assignment**

Assignment of trade mark involves transfer of ownership of the trade mark to another person or entity. As per Section 2(1)(b) of the Trade Marks Act, 1999, assignment has been described as an assignment in writing by act of the parties concerned. Thus, it clarifies that for the assignment of trade marks it is necessary for the agreement to be in writing. The provisions concerning assignment and transmission of trade mark are contained in Sections 37 to 45 of the Trade Marks Act, 1999. There various types of assignment.

- (a) Assignment with goodwill
- (b) Assignment without goodwill

**Assignment-With and Without Good Will**

Goodwill is an umbrella concept and has been valued for a very long time. The Goodwill was valued whenever a business as a whole was transferred from one entity to another or when new partners were brought in or old partners left the business to give them their dues as part of their contribution to the

<sup>3</sup> <http://www.tm-india.com/unregistered-trademark/>

<sup>4</sup> Arindam Bhattacharjee & C.Prashanth, Need for Brand Valuation, <http://www.hinduonnet.com/businessline/2000/03/23/stories/112302c2.htm>

<sup>5</sup> Ibid

and/or services produced or provided by one enterprise from those of others and help to establish an identity in the market place. Trade Marks have come to represent not only the actual goods and services, but also the reputation of the business. It is a marketing tool used by manufacturing and service providers as a means of helping consumers and traders in identifying them.

The major steps in trade mark acquisition process are:

- (a) Due diligence
- (b) Valuation
- (c) Assignment
- (d) Recordal of assignment

Trade Mark due Diligence is the process of analysing information concerning a target company's trade mark portfolio and assessing the risks, exposure and benefits associated with the proposed transaction. The potential acquirer will be based on the results analyse validity and risks of the trade mark portfolio and its impact on the strategic short- and long-term business goals. The results have a profound impact on the valuation.

Due diligence could highlight contingent risk which do not always arise from Trade Mark law itself but may be significantly affected by product liability and contract law and other non-IP realms. One of the primary steps in a trade mark due diligence exercise is to ascertain whether the trade marks are registered and to have a thorough perusal of the prosecution file history of the registration. This is very essential to assess whether any prosecution estoppels<sup>2</sup> exists.

#### Need For Registration

Trade Mark registration is one of the strongest ways to protect one's trade mark. Registration makes it a lot easier to protect the trade mark against would

be infringers and could end up saving a lot of time and money, in proving that, one is the legitimate owner of the trade mark. Registering and maintaining registration of the Trade marks grants many advantages like protection against infringement of trade mark, exclusive use of the mark and the right to prevent others from using, applying the said trade mark without proper authority.

#### Registered and Unregistered Trade Marks

Registration of the trade mark gives constructive notice to the public of the claim of ownership of the trade mark and is indicated so by using the symbol ® or Regd or Registered in relation to the goods or services in respect of which the mark is registered. Only a registered trade mark can enjoy/avail the benefit of suing the unauthorised use of trade mark for infringement. Registration of a trade mark forbids every other person to use or obtain the registration of the same trade mark or a confusingly similar trade mark in relation to the same goods or services in relation to which the trade mark is registered.

An unregistered trade mark is a trade mark which does not benefit from the protection afforded to trade marks through registration. They may however benefit from protection due to other features of the law in relation to trade marks, such as protection arising out of long usage. Unregistered trade mark may be protectable only within the geographical area within which it has been used or in geographical areas into which it may be rationally expected to expand. There are provisions in law for unregistered trade marks to gain protection, where the services and goods must have a highly significant position in the market for sales in that particular class of goods and services.<sup>3</sup>

<sup>2</sup> Prosecution estoppels relate to rights that, the applicant has given up or restrained that the Applicant has agreed during the prosecution of the application with the Trade Mark Registry.

