

Intellectual property rights have never been so important to your company. But how do you protect them in a market where many of the rules are still being made – and broken. Borenius Group is your guide, writes *Adrian Holliday*

IP jungle experts

The battleground for intellectual property rights is being fought hard across the globe. Companies continually attempt to outwit each other with intellectual property protection, particularly in the fields of IT, pharmaceuticals and environmental technology (often increasingly called 'greentech'). Certainly Scandinavian and particularly Finnish firms are at the cutting edge of this IP battle, themselves home to a very high proportion of innovation intensive companies.

"There is certainly more litigation than there was two years ago," says partner Pekka Tarkela from Borenius & Kemppinen in Finland. "What we see is the standard pattern in litigation issues when companies try to outsmart each other. They're trying new ways. Previously it was more provisional, up to a point, but now the litigation is more serious."

Partner Ilze Bukaldere of Borenius' Latvia office says IP and IT issues are, more than ever, deeply embedded in the M&A environment. "The challenges regarding IP and IT issues in M&A transaction closely relate to the 'object' of M&A, namely, if it is an IT-related company or a company having valuable IPR assets, then IP and IT issues relate to ensuring that IT and IP is acquired in the result of M&A and the further exploitation of them is not jeopardised by M&A transaction."

The IP issue is more serious because many companies are realising the full value of their IP, and want, obviously, to protect it. It's not just about wanting to make a profit; it's also about shareholder protection – and it's also about compliance. "There's a lot of change in the industry," says Mr Tarkela. "Although the basics, the fundamentals of IP protection are the same, we're seeing a lot of interest in greentech or environmental technology. It takes so many shapes too. Patent issues. How the European Patenting System is evolving. Regulatory issues. There are also practical but important issues too regarding patent prosecution and filing. Do you file just in your own native language and how do you develop the patent protection? What about forum shopping between various jurisdictions?" All this calls for a professional IP approach and strategic IP planning.

What Borenius Group does:

- Helps clients develop and execute strategies for maximising and protecting the value of their intellectual capital
- Keeps pace with the ever-expanding IP field and provides innovative, yet practical and cost-effective solutions to new legal questions and challenges
- Provides cutting-edge services in such fields as biotech, digital content production and the protection of know-how
- The Borenius Group IP teams consist of experts with highly specialised knowledge who work in close cooperation with lawyers in the competition law, M&A and capital markets teams

Additionally, Ilze Bukaldere of Borenius' Latvia office says the main issues to be dealt within IP/IT in any M&A deal typically relate to:

- The registration & validity of IT (if and where applicable)
- Contractual arrangements related to IP/IT
- Safeguarding of IP within contractual arrangement of a company, including employment arrangements
- Effects on existing IP/IT by M&A transaction – the particular issues dealt with IT/IP depend on specific circumstances related to a particular M&A transaction, as well as on the operations of the target company

Demystifying IP is essential

What's the right valuation for your IP? It's a good question for many companies. "Ten years ago the IP field really was almost a mystical place," says Mr Tarkela, "particularly around evaluation. Very little work had been done in it. It's still a very challenging place, but clients are getting much more solid guidance from their legal and financial advisers now."

That advice though needs to arrive early. Tarkela says that hiring a good IP lawyer earlier rather than later is likely, in the long run, to save your company money. "Obviously it depends on what you want from your lawyer, but if you want to make sure there's



About Borenius Group
Borenius Group is an alliance of law firms operating in Finland, Estonia, Latvia and Lithuania. The member firms of the Borenius Group are independent and separate legal entities following their respective local Bar rules.



no nasty surprises, then yes, it's about taking the right amount of IP expertise, at the right level. Some think that studying IP issues is traditionally slow and expensive, and for some it has been that. But when you hire a company that specialises in it, you would be surprised how quick and effective they can be."

The issue of value

Despite improvements in IP recognition, too many companies in the M&A arena fail to value their IP adequately. Partner Peeter Kutman at Luiga Mody Hääl Borenius, Estonia, says that issue has been highlighted with emphasis, particularly in the last two years. "We saw several large Internet companies being purchased in 2007 by professional investment firms in Estonia. Too many of those companies had not got an accurate assessment of their IP value, their intangible assets, their trademarks and software, all that had been built up over a long time. There's still a basic lack of awareness about the issue, especially when you're preparing the sale of a company."

Another issue that doesn't get sufficient attention is the issue of copyright – and who owns it. "When you have companies creating software, for example, some companies will assume that they own the copyright to that development – not true in every case. That means it's critical for companies to have in place a property employment agreement that ensures that copyright issues belong to the company, not to the employee. There is more awareness of these issues in Scandinavia, but not so much awareness in the Baltic States yet."

Looking beyond the obvious

But what are the main issues dealing with IP protection in an M&A IT deal, for example? Mr. Stasys Drazdauskas, head of IT and IP practice group at

Foigt & Partners/Regija Borenius in Lithuania says it is common to find during an M&A deal that IP/IT-related issues are often not taken care of adequately. "Usually companies do take care of the legal protection of their most obvious trademarks but forget to register other labels, marks or slogans, which are not intensively promoted but still used in their activities. It happens that companies even do not have confidentiality protection measures in place, such as confidentiality agreements with employees, the approved lists of commercial secrets, which are necessary to protect the know-how of the company. Almost in every M&A deal it turns out that the group of companies does not have a strategy of allocation of IP assets within the group and do not take into account the tax implications of such allocation."

Mr Drazdauskas says a good example of this is when a parent company has a registered trademark and allows it to be used by a subsidiary where there are no trademark license agreements made. "Almost none of the companies have any IP asset management system implemented which would allow proper identification of IP objects, ensuring their legal protection, and monitoring. There are no responsible persons assigned for IP asset management."

Different industry, different discipline

Valuing IP itself meanwhile is rapidly developing into a highly tuned discipline for many legal experts. Mr Pekka Tarkela typically says IP can vary to between 20-100 percent of a company's value. "Let's say you have a consulting company with a staff of 20. The intellectual capital is in the people, the experienced consultants who've helped that company develop. In their case the IP content is likely to be closer to 100 percent."

Meanwhile companies oriented to electronic commerce, such as Internet and media companies,

often place a low value on material assets. But for businesses which are based on traditional manufacturing and services, the IP issue may seemingly not be significant in terms of M&A. "However," reminds Mr Drazdauskas, "there are a number of companies which have very strong brands, the reputation of which rapidly increased during the last decade so these brands add value to the companies considerably. For any M&A deal it is crucial to ensure any IP assets acquired together with a target company or business are properly protected and are assigned to the transferee to the fullest possible extent."

Doubling your M&A protection

It's also important to know – particularly for Finnish operators – that the roles of the IP lawyer and the patent attorney are very different, advises Mr Tarkela. "You've got to make sure that you have the expertise you need on board from the start. If you have a patent attorney that assesses patents, for example, but only from a purely technical view and doesn't consult an IP lawyer, then that is potentially very expensive."

"You've got to make sure there's good coordination between them. Many foreigners don't realise that lawyers are not patent attorneys, and that the two are typically not found in the same firms – it's a two-tier system in Finland."

Harnessing IT protection

Can technology and IT make it easier to cope with IP issues? Certainly it has the potential. On one hand, technology is a very valuable tool in managing IP, which provides a possibility to easily monitor the large portfolio of trademarks, patents and other IP assets which need constant renewal in order to be continuously protected. "The electronic databases of existing IP objects allow monitoring of emergence of infringing new trademarks


or patents," says Mr. Stasys Drazdauskas. "Technology also is a fast tool to communicate across the states regarding IP management and even to resolve certain IP-related disputes, such as domain name-related disputes."

On the other hand, however, technology provides a handy and fast environment in order to copy copyright materials, to transfer and spread secret data and commit other IP infringements which are not easy to track and prosecute."

Practical steps everyone can take now

Every company should perform at least a simple audit and review of their IP assets, suggest the legal experts at B&K. "It's certainly true that even those companies which feel that they do not have any registrable trademarks do not invent or do not create copyright material," says Mr Drazdauskas, "but they still have at least a website, i.e. a domain name, a logo, or some commercial secret which needs to be legally protected. Therefore, each company should identify what IP assets they do have and should plan further steps in how to take action to legally protect them."

He adds that the companies which have taken care of some IP assets should consider how to manage the whole IP portfolio more efficiently so that no valuable object is overlooked or no infringement remains unnoticed – and that they should set up an IP management system as soon as possible.

Of course, what action depends very much on the type of company, adds Ilze Bukaldere of Borenius' Latvia office. "Practical steps to be undertaken by companies to ensure the protection of their IP depend on the subject matter of IP and the level of protection a company desires to achieve. Such can involve certain contractual arrangements and also use of legal remedies provided by applicable laws." 

IP checkpoint:

- Take your IP under a magnifying glass and ask how you can make the most out of it
- What are the real issues for you?
- Create a strategic IP protection plan
- Be aware that big company management divisions often lack a coherent view on IP
- Talk to your existing clients and find out what you can do for them
- IP is a constant learning process – don't be afraid of it!

For further information:
 www.borenius.com

Borenius & Kempainen
Yrjönkatu 13 A
FI-00120 Helsinki,
Finland
☎ +358 9 615 333

Liepa, Skopina
/Borenius
Lacplesa str. 20a
LV-1011 Riga, Latvia
☎ +371 7 201 800

Luiga Mody Hääl
Borenius

LT-01112 Vilnius,
Lithuania
☎ +372 6651 888

Foigt & partners
/Regija Borenius
Kawe Plaza, Pärnu
mnt 15
J. Jasinskio g. 16 A
10141 Tallinn, Estonia
☎ +370 5 264 9555

