

# 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.

business. Generally, trade marks are adopted taking advantage of the goodwill and reputation already enjoyed by the company or the business group. Ownership of the trade mark can be clearly distinguished from the ownership over the goodwill.

This was set out clearly by the Bangalore Income Tax Appellate Tribunal (the Tribunal) in the case of *Associated Electronic & Electrical Industries Pvt. Ltd. v. DCIT 2009 TIOL 263 ITAT-BANG* held that transfer of trade mark is not transfer of goodwill as the goodwill of a business cannot be sold without selling business itself. Further, the Tribunal also held that goodwill of a business can be sold only along with the business to which it was attached and not independent of it because it is that element of value which inheres in the fixed and favourable consideration of customers, arising from an established and well-known and well connected business. Thus, the trade mark and goodwill are perceived to be two different assets.

The trade mark can be transferred separately, either with or without the goodwill of the business whereas goodwill cannot be sold without the business itself. Unless, mere transfer of trade mark cannot be regarded as transfer of goodwill. A registered trade mark can be assigned with or without the goodwill of the business concerned, and in respect of either or all the goods or services in respect of which the trade mark is registered.

Section 39 of the Trade Marks Act, 1999 explicitly permits unregistered trade mark also be assigned with or without goodwill of the business concerned. However, the law provides restrictions on assignment or transmission where

multiple exclusive rights would be created in more than one person and also to prevent splitting of right on territorial basis and creating right in different persons in different parts of India. However, the Registrar is empowered to approve assignment where he satisfied that it would not be contrary to the public interest.

#### Effect of Assignment With Goodwill

Goodwill includes whatever adds to the value to the business by reason of situation, name and reputation, connection, introduction to old customers, and agreed absence from competition, or any of these things, and there may be others. In this wide sense, goodwill is inseparable from the business to which it adds value and, exists where business is carried on. Where such business is carried on in one place or country or in several and if in several, there may be several businesses each having goodwill of its own.<sup>6</sup>

The transfer of goodwill confers on the transferee the exclusive right to carry on the business transferred, the exclusive right to represent himself as carrying on such business and as against the transferor the exclusive right to use the name under which the business has been carried on, but such name must not be used so as to expose the transferor to a risk of personal liability owing to his being held out as the owner of or a partner in the business.<sup>7</sup>

#### Effect of Assignment Without Goodwill

If the proprietor assigns his trade mark without the goodwill associated with the business, the Assignee has to put the mark to actual use and build a reputation.

<sup>6</sup> *Reuter v. Mulhens* (1953) 70 RPC 103, 121 [http://ipindia.nic.in/tmr\\_new/TMR\\_Manual/DraftManual\\_TMR\\_23January2009.pdf](http://ipindia.nic.in/tmr_new/TMR_Manual/DraftManual_TMR_23January2009.pdf)

<sup>7</sup> *Ibid*



An unregistered trade mark can be assigned without the goodwill of the business under the following circumstances:

- At the time of assignment it is used in the same business as a registered trade mark;
- That both the registered and unregistered trade marks are assigned at the same time and to the same person; and
- That the goods in respect of which the assignment is effected are the same for both the registered and unregistered marks.

With regard to assignment of a trade mark, the compliance management task could be divided as following:

- (1) Collecting the information and documents regarding the mark and its actual use
- (2) Analysing the registrations
- (3) Ascertaining the validity of such registrations
- (4) Ensuring that the documentation relating to the volume of sales of goods or services is available
- (5) Certifying the value of sales of goods carrying the brands
- (6) Valuing the trade marks or brands in question
- (7) Drafting the Assignment deed
- (8) Payment of stamp duty/tax
- (9) Executing the Assignment deed
- (10) Payment of consideration
- (11) Applying for registration as a subsequent proprietor

The application, in the prescribed format, has to be submitted by the Assignee by itself or together with the

Assignor, before the Registrar of Trade Marks for registering the title once it becomes entitled by assignment to a registered trade mark. The Assignee, after the assignment is complete, must apply to the Registrar of Trade Marks to register his/her title and the Registrar enters the name and details of the Assignee in the Register on proof of title, to his satisfaction. Failure to record an assignment can result in the invalidation of the assignment agreement. There are also affirmative deadlines by which assignments must be recorded, failing which they will be deemed invalid.

In respect of assignment of trade marks (registered or unregistered) without the goodwill of the business concerned, the prescribed procedure has to be followed, which inter alia, includes advertisement of the proposed assignment to be published in the newspapers. The Registrar could impose certain restrictions and conditions for the assignment or transmission of the trade mark.<sup>8</sup>

#### Compliances – For Marks Assigned When It Is Pending Registration

In case of marks that are not registered, if the Assignor is prosecuting an application for registration, the Assignee could file application to make the correction in the name of the applicant and the Registrar may take record the change in the particulars of the proprietor after being satisfied about the evidence tendered.<sup>9</sup>

#### Compliances – For Marks Assigned Which Are Registered

The procedure for recordal of assignment is contained in Section 45. An application to register the title of a person

<sup>8</sup> <http://www.nishithdesai.com/Research-Papers/Indian-IPR-Law-Regime.pdf>

<sup>9</sup> <http://www.icsi.edu/cs/October2007/Articles/Compliance%20Management%20Regarding%20Assignment%20of%20Trademarks%20by%20Dr.%20K.%20S.%20Ravichandran%204.pdf>

who becomes entitled by assignment to a registered trade mark should be made together with the prescribed fee. A joint application can be made by the registered proprietor and subsequent proprietor or an application can be filed by the subsequent proprietor alone. It is advisable to make a joint application since it facilitates the assignment to be recorded faster and it normally requires less evidence as to the title of trade mark. On proof of title, the Registrar will register the Assignee as the subsequent proprietor of the trade mark and cause the particulars entered on the register.

If the Assignment of trade marks is without goodwill, an application along with the copy of the Assignment deed has to be made stating the date on which the assignment is made and giving particulars of registration to seek the Registrar's direction for the advertisement of assignment of trade marks within six months from the date on which the assignment is made. This time is extendable by three months. The Registrar may call for any evidence or further information and on being satisfied with regard to assignment, will issue directions in writing with respect to the advertisement of the assignment. On receiving the Registrar's direction to advertise the assignment in the prescribed manner and within the prescribed time limit, the advertisement has to be issued. The object of advertisement is merely to give notice to the public about the transfer of ownership of the mark, without the transfer of business itself. After advertisement of the assignment an appropriate application to register, the title of the transferee or the Assignee is to be made.

An assignment cannot be enforced, if it creates multiple exclusive rights in more

than one person (Section 40). Nevertheless such assignment is not deemed to be invalid when accompanied by suitable safeguard, with conditions and limitations, so that such exclusive rights are not exercisable by two or more persons within India. In accordance with the prescribed procedure, an application can be made along with the statement of case with a draft copy of the proposed deed of assignment. The Registrar may also hear the applicant and any other person who may be interested in the assignment. Therefore, the Registrar may issue the certificate as to whether the proposed assignment would or would not be invalid under Sub-section (1) of Section 40.<sup>10</sup>

Where a certificate has been issued acknowledging the multiple exclusive rights in more than one person by the Registrar, an application for registration of the title is to be made within six months from the date of approval either jointly by the Assignor and Assignees or by the Assignees alone.

An assignment cannot be enforced, if it creates multiple exclusive rights on different persons in different parts of India. However, the Registrar has been empowered to approve such assignment, if he is satisfied that it would not be contrary to public interest. An application may be made together with the statement of case setting out the circumstances and a copy of the instrument. The Registrar may also hear the applicant and any other person who may be interested in the assignment. After hearing the Registrar may issue a written approval or a disapproval of the proposed assignment.<sup>11</sup>

Where a certificate has been issued acknowledging the multiple exclusive rights on different persons in different parts of India by the Registrar, an

<sup>10</sup> [http://ipindia.nic.in/tmr\\_new/TMR\\_Manual/DraftManual\\_TMR\\_23January2009.pdf](http://ipindia.nic.in/tmr_new/TMR_Manual/DraftManual_TMR_23January2009.pdf)

<sup>11</sup> Ibid



application for registration of the title is to be made within six months from the date of approval either jointly by the Assignor and Assignees or by the Assignees alone.

When the assignment is in dispute, the Registrar may refuse to register until rights of parties are determined by a competent Court.

#### **Conclusion**

In today's challenging economic times, astute and strategic management of trade

mark rights is more important than ever. Before beginning a commercial transaction, it is necessary to check that the brand or the trade mark does not cause any trouble and does not risk all investments in time, effort and money to be made. The Trade Mark due diligence is a smart business solution for any company seeking an efficient and cost-effective way to develop and manage its trade mark portfolio at the time of commercial transaction.

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