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“Asset Deals in IP: buying what you can’t see”

WS 01 National Report of Austria

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Questionnaire to National reporters

A. EXECUTIVE SUMMARY

For the purposes of this report, “IP” means any intellectual property, intellectual property rights, copyrights, trademarks, patents, domain names, confidential technology and know-how (whether or not of a patentable nature), and any other rights having an economic or commercial value.

Austria has transformed into Austrian law all EU-Directives in this field and is therefore harmonized EU-law.

The protection of IP is based on the principle of enumeration as only IP-rights are available that are expressly enumerated. New forms of IP such as domains are brought under the ambit of the existing enumerated IP-laws.

There are no restrictions on foreign investors to enter into asset deals regarding IP. The fact of the transfer has to be reported to the competent registers (as far as the IP right in question is registered).

It has to be noted that patent rights are not acquired with signing of the transfer document but only with registration in the relevant register. Thus, signing and closing related to asset deals regarding patents should be severed.

It is strongly recommended to conclude agreements with key employees containing among others confidentiality issues, transfer of know how, compensation for inventions which should be already in place when signing a purchase agreement on IP/assets.

It has to be noted that the buyer of assets or an undertaking is mandatorily liable for all liabilities belonging to the assets which he knows or should have known, capped with the value of the acquired assets. The liability is reduced as far as the purchase price is used for the settlement of the claims of the creditors of the seller. There should be inserted clauses in an asset deal that buyer may pay (part of) the purchase price directly to the seller’s creditors.

See below the main rules on transfers of IP rights/licenses:

Chart: How are IP rights/licenses transferred (i) as such or (ii) in the course of an asset deal?

	Patents	Patent Licenses	Trademarks	Trademark Licenses	Copyrights	Copyright Licenses (right to use)
Transfer of rights	By agreement with signature of seller notarized	By agreement ³	By agreement with signature of seller notarized	By agreement ⁴	Non transferable	By agreement ⁵
Acquisition of an enterprise with IP related to it (asset deal)	By agreement with signature of seller notarized	Without consent of the patent holder if transferred in conjunction with the part of the enterprise or the division entitled to the licence ⁶	Without consent of the trademark holder if the entire enterprise, to which the trademark belongs, is transferred ⁷	Without consent of the trademark holder if the entire enterprise, to which the trademark belongs, is transferred ⁸	Non transferable	Without consent of the author/creator, if the enterprise or part thereof, to which the right to use belongs, is transferred ⁹

B. DETAILED QUESTIONS RELATING TO YOUR JURISDICTION

NATURE AND CONTENTS OF IP RIGHTS (GENERAL)

- PLEASE BRIEFLY DESCRIBE THE DIFFERENT RULES WHICH, IN YOUR JURISDICTION, APPLY TO THE DIFFERENT NATURE AND CONTENTS OF IP (E.G. PATENTS, PATENT APPLICATIONS, TRADEMARKS, DOMAIN NAMES, COPYRIGHTS, KNOW-HOW, SOFTWARE, THE WEB AND ITS USE, ETC.). PLEASE ALSO DESCRIBE THE RULES – IF ANY – WHICH APPLY TO IP IN SPECIFIC SECTORS OR INDUSTRIES (E.G.: WITH RESPECT TO BIOTECHNOLOGY OR PHARMACOLOGICAL IP RIGHTS; ENERGY; AEROSPACE; ETC.). [IP]**

³ However, parties may agree that a licence shall not be transferrable.

⁴ See footnote 3.

⁵ See footnote 3.

⁶ Article 38 of the Patent Act.

⁷ Except where agreed otherwise, see Article 11 para 1 of the Trademarks Protection Act

⁸ See footnote 7.

⁹ Article 28 para 1 of the Copyright Act

1.1 Introduction

The Austrian legal system for the protection of IP-rights is governed by the principle of enumeration: Only those IP-rights are available, which are enumerated in the different laws. Basically, the following laws are available for the protection of IP-rights in Austria:

- The Trademark Protection Act (*Markenschutzgesetz/MSchG*).
- Patent Act (*Patentgesetz/PatG*).
- Utility Model Patent Act (*Gebrauchsmustergesetz/GMG*).
- Design Protection Act (*Musterschutzgesetz/MuSchG*).
- Protection of Topographies Act (*Halbleiterschutzgesetz/HISchG*).
- Protection of Plant Varieties Act (*Sortenschutzgesetz/SortSchG*).
- Act for Supplementary Protection Certificates (*Schutzzertifikatsgesetz/SchZG*).
- Copyright Act (*Urheberrechtsgesetz/UrhG*).

Additionally, the Unfair Competition Act (*Gesetz gegen den unlauteren Wettbewerb/UWG*) provides protection against unfair commercial practices.

New "forms" of IP-rights such as domain names, confidential information, etc. are subject to the laws enumerated above. No separate laws exist.

1.2 IP Laws in Detail

In the following, the different rules for each IP-right will be shortly summarized:

1.2.1 Trademark Protection:

The Austrian Trademark Protection Act provides for the protection of trademarks in Austria. Trademarks may be any signs and symbols that are graphically representable, and which are capable of distinguishing the goods or services of one person from another. This includes also words, names, devices, numbers, three dimensional shapes, colours, sounds, etc. Any such sign is capable of being registered as trademark if it is, in particular, distinctive, non-descriptive, not generic and not deceptive.

Apart from the Trademark Protection Act signs may be protected as (firm) names, title of works and non-registered trademarks by (qualified) use on the market (without registration).

The application for a trademark to be registered has to be filed with the Austrian Patent Office (www.patentamt.at), which is in charge for the protection of inventions, trademarks and industrial designs. The application will be examined to determine, whether the applied for trademark complies with the local rules, i.e. is registrable. The applicant is also warned in advance about prior identical and similar registrations or applications for trademarks in a similarity report. However, the trademark will be registered even if prior rights exist; it is then up to the prior right holder to file a nullity application.

The term of protection of the registered trademark is ten years from the registration date, which may be prolonged for indefinite number of 10 year periods.

Additionally, there is the option of registering a Community Trademark (“CTM”) with the Office of Harmonisation for the Internal Market (“OHIM”) (under <http://oami.eu.int>).

1.2.2 Patent Protection:

The Austrian Patent Act provides for the protection of inventions for the Austrian territory. Patents protect new technical solutions based on inventive efforts that are industrially applicable. An examination is performed to ensure that patents are issued only for those inventions that are actually worth obtaining a patent (new, inventive and industrially applicable).

Applications for patents must be submitted with the Austrian Patent Office. The Technical Department of the Patent Office will examine the application substantially, if not rejected for formal grounds. The application will be published together with a research report within 18 months, with the rights conferred by a patent provisionally entering into force. After grant of the patent any third person may file an opposition within four months.

The maximum term for the protection of the patent is 20 years. For pharmaceutical products see below.

1.2.3 Supplementary Protection Certificates (“SPC”):

Council Regulation 1768/92 for pharmaceuticals and Council Regulation 1610/96 for pesticides and the Supplementary Protection Certificate Act provide for the supplementary protection of patents in Austria.

In the area of pharmaceutical products and pesticides, the actual term of exclusive marketing of products is shortened by time-consuming proceedings for marketing authorization etc. Therefore, the term of protection of patents in this area is prolonged by SPCs.

The SPC can be applied for with the Austrian Patent Office. The deadline for the application for an SPC is six months after the granting of market authorization (in Austria); however, in the event the market authorization was granted before the grant of the basic patent, the SPC application has to be filed within six months after the date of grant of the patent. No substantial examination takes place for registering the SPC.

The maximum term of the protection certificate is five years. The protection period connects immediately with the last day of the underlying patent protection period.

1.2.4 Protection of Utility Models:

The Utility Model Act provides for the protection of technical inventions. A utility model is similar to a patent, and sometimes referred to as “petty patent”. Like a patent, an utility model is awarded for a technical invention, which does, however, not require the same extent of inventiveness as a patent does. Also program logic as such is subject to protection as a utility model. Contrary to the application proceedings for a patent, an utility model application involves no substantial examination of novelty, inventiveness or industrial applicability.

The maximum duration of protection is ten years from filing of the application.

1.2.5 Design Protection:

The protection for industrial design is covered by the Austrian Design Protection Act. A registered design protects the design as such, the appearance of a product, neither the actual idea behind the product nor the technical functionality. A design is eligible for protection, if it is new, individual and if there is no prior design.

To obtain protection for a design, an application has to be filed with the Austrian Patent Office. The application is only formally examined by the registrar, no search for prior rights and no examination of novelty is conducted.

The initial term of protection after grant of the design right is five years. This term can be extended every five years for up to four times by paying a renewal fee. The maximum term of protection is, therefore, 25 years.

There is also the option to apply for a registered Community Design (RCD) or a design to be protected as unregistered CD (UCD).

1.2.6 Copyright Protection:

The Austrian Copyright Protection Act provides for the protection of literary, musical, artistic, photographic or film works. Works in the meaning of the Copyright Act have to provide a certain amount of originality in order to be protected under the Copyright Act. The property rights on the work arise automatically when the work is created and does not depend upon the publishing or a registration of the work.

The Austrian Copyright Act distinguishes between the rights of exploitation (use) of the works and personal rights that are connected with the protected work. The copyright holder has the exclusive right to decide, who may use or take advantage of his/her work. Under the personal rights of the Copyright Act, the copyright holder has the exclusive right to decide, whether and by whom his/her work shall be made available to the public.

Copyright protection lasts for the lifetime of the copyright holder and 70 years after his/her death.

1.3 Enforcement in Short

The above described IP rights may be enforced with civil court proceedings, claiming for injunction, destructions, information of the source of supplier, rendering of accounts, payment and publication of an advantageous judgment. Preliminary injunctions are available under eased legal circumstances.

Apart therefrom, criminal action may be brought against an infringer.

2. ARE THERE ANY RESTRICTIONS ON PARTICULAR IP RIGHTS AND TECHNOLOGIES (E.G.: DUAL USE TECHNOLOGIES, EMBARGOS ON CERTAIN COUNTRIES, PHARMACEUTICAL, BIOTECHNOLOGIES, MILITARY AND THE LIKE)? [IP, GENERAL]

2.1 Restrictions Related to Trademarks

In the trademark area certain trademarks (like for instance the state symbol) are excluded from trademark protection, because such symbols shall be available for the general public without restriction.

The Trademark Protection Act provides in its section 10 para 3 that the owner of a registered trademark does not have the right to prohibit third parties from

- using their name or address,
- using information about the kind and composition, the quantity, assignation, the value, the geographical origin or the time of production of the goods or the services rendered or with respect to other attributes of the goods or services,
- using the trademark as indication of the assignation of the goods, in particular as accessory or spare part or the provision of services.

in the course of commerce as far as this use does not exceed the general rules in trade.

Additionally, the principle of exhaustion constitutes that a trademark owner may not prohibit the use of a trademark in relation to goods which have been put on the EEA market under the trademark by the owner or with his consent.

2.2 Restrictions Related to Patents

The Austrian Patent Act provides under section 1 par. 2 that inventions regarding

- discoveries as well as scientific theories and mathematical methods;
- esthetical creations;
- plans, rules and procedures for notional procedures, games or commercial activities as well as programmes for data processing equipment;
- the reproduction of information;

shall not be patentable.

Additionally, section 2 (§ 2 PatG) provides that certain inventions,

- the publication of which would violate the ordre public, or
- surgical and therapeutic processes for the treatment of the human or animal body (not including products and in particular substances, which are applied in such procedures) or
- plant varieties and animal species,

shall not be patentable.

The Utility Patents Act provides similar exceptions in its section 2.

2.3 Restrictions Related to Copyrights

Laws, regulations, official decrees, notices and judgments as well as certain works of literature, predominately created for official use, are not subject to copyright protection.

Extensive provisions regarding the restrictions of the rights to exploit and enforce copyrights against third users exist (e.g. private use of a work, right of citation, etc).

3. ARE THERE ANY MANDATORY LICENCES OF ANY TYPE, THE RULES OF WHICH MUST BE COMPLIED WITH? [IP, GENERAL]

The Austrian Patent Act provides for a certain mechanism through which it is possible to obtain a compulsory license to a patent. The Austrian Patent Office may, upon application of a third party, decide on the grant of a non-exclusive compulsory license without authorization of the right holder, if one of the following requirements is fulfilled

- A patented invention, constituting a material technical advance, cannot be exploited without infringing an earlier patent. The patent owner of the earlier patent is, however, entitled to cross-licensing;
- A patented invention is not used or worked in Austria to an adequate extent, import shall constitute such adequate use;
- Public interest demands the issuance of a compulsory license for the patent and invention.

The patent owner whose rights are licensed, is entitled to adequate compensation. Compulsory licensing is, however, scarcely relevant in practice.

Based on the principle of abuse of a dominant position under cartel law there might be granted a right to access to IP, which is comparable to compulsory licensing (see IMS Health decision by the ECJ).

4. PLEASE BRIEFLY OUTLINE THE RULES IN YOUR JURISDICTION, IF ANY, CONCERNING PARALLEL IMPORTS AS THEY RELATE TO IP RIGHTS (E.G.: PROTECTION OF IP RIGHTS IN THE COUNTRY WHERE IP RIGHTS WERE GENERATED IN THE EVENT OF PARALLEL IMPORT FROM COUNTRIES WHERE THE SAME IP RIGHTS RECEIVE NO PROTECTIONS). [IP, GENERAL]

4.1 Parallel Imports and Trademarks:

The Austrian Trademark Protection Act, corresponding to the Trademarks Directive, provides that a trademark holder may not prohibit the use of a trademark in relation to goods which have been put on the EEA market under the trademark by the owner or with his consent. Consequently, the trademark owner can not prohibit the further distribution or the

parallel import of such products. In Austria, the principle of exhaustion is limited to the so-called "EEA-wide exhaustion of rights doctrine".

4.2 Parallel Imports and Patents:

No statutory provisions exist. Jurisprudence of the ECJ is applicable and practice of the Austrian courts rarely exists. According to this, the principle of community exhaustion is accepted to enable the free movement of goods. This means that the owner of a patent right in Austria cannot rely on its patent rights to prevent the importation or marketing of a product, which has been lawfully marketed in another Member State by the owner of the right or with its consent by a third person.

Also, according to the rules of the European Supreme Court, compulsory licenses do not exhaust patent rights.

With regard to the ten new Member States the "Specific Mechanism" has been put in place by the Extension Agreement:

- The holder of a patent or a SPC for a pharmaceutical product who filed a patent or a SPC in an member state at a time when protection was not available in one of the new Member States for the product, may rely on the rights granted by that patent or SPC in order to prevent the import from that old member state and marketing of that product in Austria, if the product enjoys protection by a patent or SPC. This applies even if the product was put on the market in that member state for the first time by him/her or with his/her consent.
- With the specific mechanism it has been established that a person who intends to parallel import such a patent-protected product, shall demonstrate, before parallel import takes place, to the competent authorities in an application proceeding regarding the import of such a product that prior notification has been given to the holder or beneficiary of such protected right.

5. CAN A FOREIGN INVESTOR FREELY ENTER INTO AN ASSET DEAL WHERE SIGNIFICANT IP IS ALSO TRANSFERRED? [IP; GENERAL]

A foreign investor can basically enter into an asset deal were significant IP rights are transferred. There are no substantial restrictions on investing in Austria, in particular there are very few formalities to comply with (apart from IP: approval by land transfer authorities, approval by Takeover Commission, Cartel Authority etc.).

In order to effectuate the transfer of patent, utility model, design and trademark rights, which are registered with the Patent Office, a local attorney-at-law or patent attorney has to be retained to record the transfer in the respective registers.

6. ARE CONFIDENTIALITY AGREEMENTS CUSTOMARY IN YOUR JURISDICTION? ARE THEY AUTONOMOUS DOCUMENTS OR ARE THEY NORMALLY INCLUDED IN A LETTER OF INTENT? [M&A]

Confidentiality agreements are customary in Austria in the course of the initial stage of a transaction or the due diligence process. Such agreements are either included in a letter of intent or are autonomous documents.

In general, Austrian law assumes that someone who voluntarily discloses information to a third person without any special reservation accepts that the information is used and circulated by the recipient. Therefore, to prevent this, one shall enter into a confidentiality agreement before disclosing confidential information, i.e. the initial stage of a transaction or a due diligence process. Confidentiality agreements should determine in detail which information shall be regarded as confidential, how and for which purposes disclosed information may be used, who may use it, under which circumstances the information must be returned/destroyed and which consequences a breach of the agreement may have (e.g. payment of a contractual penalty).

7. ARE CONFIDENTIALITY AGREEMENTS ALSO ENTERED INTO BY LAW FIRMS IN DUE DILIGENCE PROCESSES? [M&A]

Professional advisors are subjected to secrecy obligations according to their conduct rules. Lawyers are bound by the most rigid confidentiality obligations, provided for the Lawyers' Act (Rechtsanwaltsordnung, RAO). However, these confidentiality obligations rather protect the client than the clients' counterpart who discloses information, for instance in a data room. Therefore, it is common that the advisors are also asked to sign confidentiality agreements before giving access to confidential information. This is especially vital if the disclosing company is quoted on a stock exchange.

8. HOW WOULD YOU NORMALLY STRUCTURE THE DUE DILIGENCE PROCESS WITH RESPECT TO IP MATTERS? IS THERE ANY SPECIFIC DOCUMENTATION WHICH IS REQUIRED SO AS TO CARRY OUT A PROPER DUE DILIGENCE EXERCISE IN YOUR JURISDICTION WHEN IP IS INVOLVED? [IP, M&A]

8.1 General

In a usual due diligence process the seller (in cooperation with the target) upon request of the purchaser (due diligence request list) sets up a "data room", containing all information and documents requested and/or necessary to inform the purchaser. The due diligence in IP related matters may vary from the usual data room investigation. Registered rights, i.e. patents, utility patents, trademarks, designs can be scrutinized in the official registers. Therefore, the Austria Patent Office (www.patentamt.at), the OHIM (www.oami.eu.int) and the European Patent Office (www.EPO.org) provide online research databases, where also the current status of registered rights can be verified.

Apart therefrom, the documentation provided in the data room may be essential to verify:

- the title to the right (IP right transfer agreements, asset purchase agreements of a business undertaking, wherein it may be questionable if and which IP rights and/or licences have been transferred, etc);
- any licences granted by or to the target;
- copyrights and related licence agreements (please note that copyrights are not registered according to Austrian law), and other non-registered rights (e.g. firm names, non-registered trademarks, etc.)

8.2 Sample Structure

In the course of an IP related due diligence the following issues may be of relevance:

1. Identification of the technology/design/brands, which are relevant for the business undertaking.
2. Identification of the technology/design/brands the purchaser will require.
3. Identification of potential extension of the scope of business to other countries or other areas of business
4. Identification of IP rights protecting the technology/design/brands.
5. Ownership of/title to the relevant IP rights. Identification of non-registered third persons entitled to the IP rights.
6. Priority date, prolongation, term of protection and territory of protection of the IP rights.
7. Scope of protection of the IP rights (evaluation of the patent claims, scope of protection of a trademark (e.g. likelihood of confusion), etc).
8. With regard to patent application, examination of the application files, files regarding opposition/nullity proceedings and litigation files.
9. Verification of actual or potential infringements of third parties or of third parties' rights.
10. License and pledge agreements
11. Information and documents regarding employees' inventions.

- 9. ARE THERE SITUATIONS WHERE THE POTENTIAL BUYER IS NOT ALLOWED TO LOOK INTO IP MATTERS (E.G.: FOR MANDATORY RULES; FOR SPECIFIC COMMITMENTS OF THE SELLER TO THIRD PARTIES)? IN SUCH A CASE, IS IT CUSTOMARY OR POSSIBLE TO HAVE THE POTENTIAL BUYER'S CONSULTANTS REVIEW IP MATTERS AND THEN PREPARE A GENERIC REPORT WHERE ONLY KEY ISSUES AND/OR MAJOR PROBLEMS ARE HIGHLIGHTED? ARE OTHERS SOLUTIONS ADOPTED? [IP, M&A]**

There are no statutory rules prohibiting a potential purchaser to look into IP matters – Certainly parties may agree to do so subject to extensive warranties and indemnification. Occasionally, in the course of transfer of know-how the sellers' interest will be, not to have certain parts of the know-how disclosed to the purchaser before signing (or closing) of the agreement. In such event, the route of having a consultant review of the IP matter and prepare a generic report may be an option.

EMPLOYEES'S INVENTIONS AND POSITION

- 10. PLEASE DESCRIBE THE RULES GOVERNING INVENTIONS OR OTHER IP WORKS MADE BY EMPLOYEES. [IP. EMPLOYMENT LAW]**

10.1 Definition

In general, inventions created by employees during their employment relationship belong to the respective employee. Therefore, employees are entitled to the grant of a patent for any invention made by them during their employment unless otherwise provided by (i) contract, (ii) by a collective agreement or (iii), under certain conditions, if a person is employed by a public authority/university, provided that (for all of these cases) the subject matter of the invention falls within the sphere of activity of the enterprise in which the employee is active and if:

- either the activity which leads to the invention is part of the duties of the employee, or
- the incentive for the invention is based on his/her activity within the enterprise, or
- the creation of the invention was substantially facilitated by using the experiences or utilities of the enterprise.

In these events, the employee is obliged to immediately notify the employer of any invention developed. The employer within 4 months of this notification may declare whether he claims the invention by virtue of the existing agreement. Otherwise, the invention remains with the employee.

10.2 Remuneration

In any case, if the employee was not specifically employed for developing the invention and does not receive an appropriate higher salary, the inventor is entitled to adequate remuneration for assigning the invention to the employer. For calculating the appropriate remuneration detailed provisions and court practise exist; the following criteria must be taken into account:

- the economic impact of the invention for the employer;
- the possible utilization of the patent, and
- whether the employee was relying on equipment owned by the employer or the invention was made according to instructions of the employer.

10.3 Further Provisions

The employee is obliged to keep secret the inventions subject to the notification obligation of the employer.

The employee has the right to be named as inventor.

The rights and obligations of the employee according to these provisions are not affected by termination of the employment agreement. The employee may not waive its rights vested by these provisions during the term of the employment relationship. Thereafter, any such waiver or restriction is permissible.

11. HOW CAN A POTENTIAL BUYER ACHIEVE A SIGNIFICANT LEVEL OF PROTECTION FOR ITS INVESTMENT IN THE EVENT MOST OF THE KNOW-HOW IS CONCENTRATED IN A FEW EMPLOYEES OF THE SELLER? [M&A]

The answer to this question depends on whether the seller has already contractual provisions in place requiring the employees to transfer the rights to the employer or not. If such contractual provisions are in place and no change of control or non-assignability clause (which would be unusual) is included, the buyer can take over all rights and obligations of the seller, without the need of separate agreements with the employees. This, of course, triggers the buyer's duty to pay the appropriate compensation to the inventors.

In the absence of such contractual arrangements, the buyer can only secure his/her investment by entering into separate agreements with the employed inventors themselves. This risk of failing to obtain such an arrangement should be properly reflected in the purchase agreement.

12. WOULD YOU RECOMMEND OR REQUIRE SPECIFIC AGREEMENTS WITH KEY EMPLOYEES? AND AT WHAT STAGE OF THE NEGOTIATION/TRANSACTION (E.G.: PRIOR OR AFTER CLOSING? AND WITH THE BUYER OR WITH THE SELLER?) WOULD A NON COMPETITION COMMITMENT FROM AN EMPLOYEE (OR A FORMER EMPLOYEE) BE VALID AND TO WHAT EXTENT? IS THERE ANY NEED OF SPECIFIC REMUNERATION WITH RESPECT TO A NOT TO COMPETE COMMITMENT BY EMPLOYEES OR AN INDIVIDUAL IN GENERAL? (IF APPROPRIATE, PLEASE GIVE SOME EXAMPLES OF CLAUSES YOU WOULD SUGGEST SO AS TO PROTECT THE INTEREST OF A BUYER.) [M&A]

12.1 Specific Agreements with Key Employees

We strongly recommend to conclude agreements with key employees, regulating among others, confidentiality issues, transfer of know how, compensation for inventions, etc. These agreements, if possible, should be in place when signing the purchase agreement and/or should constitute an integral part of the purchase agreement. However, in the absence of such agreements specific warranty and guarantee provisions should be included in the purchase agreement, secured by appropriate penalty provisions for the seller.

12.2 Non Competition Clauses

The Austrian Employees' Act (*Angestelltengesetz/AngG*) permits the conclusion of non-compete clauses if the following conditions are met:

- the non-compete clause was not signed by a minor;
- is not valid longer than one year after termination of the employment agreement,
- the employer did not give - negligently or intentionally – any reason for the employee to quit;
- if the employer terminated the employment agreement, with the employee not giving any reasons, the employer shall pay the employee's salary for the term of the non-compete clause;
- does not unreasonably put the employee at a disadvantage, this of course requires that the employee is properly compensated for the term he/she is not allowed to work.

IP TRANSFER (GENERAL)

13. HOW IS AN ASSET PURCHASE AGREEMENT (WHERE IP REPRESENTS ONE OF THE MOST SIGNIFICANT ASSETS) NORMALLY STRUCTURED? DO YOU SEVER SIGNING AND CLOSING? ANY THERE ANY SPECIFIC RULES OR RECOMMENDATIONS WHEN IP IS INVOLVED? [IP, M&A]

13.1 General

In case of the assignment of the shares of a corporation (share deal) no transfer of assets, in particular IP rights, is necessary. The proprietary (of the corporation) related to the IP rights remains unchanged.

In case of a transfer of the actual enterprise or certain assets (asset deal) the ownership regarding the asset changes – making it necessary to have the related IP rights transferred.

13.2 Statutory Rules

The statutory provisions in the IP laws facilitate this transfer, if the IP is related to the enterprise being transferred. Where a trademark, for instance, belongs to an enterprise, the trademark shall pass over to the new owner, if the entire enterprise is transferred, except where provided otherwise by agreement. However, this statutory rule does not apply, in the event only a part of an enterprise is sold.

The same applies to trademark licences: Trademark licences pass over to the new owner of an enterprise, if the entire enterprise is transferred.

For patent licensing agreements and agreements regarding the right to use copyrights like provisions exist: Such licences may be transferred without consent of the patent holder/author, together with the enterprise or part of the enterprise, to which they belong.

Chart: How are IP rights/licenses transferred (i) as such or (ii) in the course of an asset deal?

	Patents	Patent Licenses	Trademarks	Trademark Licenses	Copyrights	Copyright Licenses (right to use)
Transfer of rights	By agreement with signature of seller notarized	By agreement ¹⁰	By agreement with signature of seller notarized	By agreement ¹¹	Non transferable	By agreement ¹²
Acquisition of an enterprise with IP related to it (asset deal)	By agreement with signature of seller notarized	Without consent of the patent holder if transferred in conjunction with the part of the enterprise or the division entitled to the licence ¹³	Without consent of the trademark holder if the entire enterprise, to which the trademark belongs, is transferred ¹⁴	Without consent of the trademark holder if the entire enterprise, to which the trademark belongs, is transferred ¹⁵	Non transferable	Without consent of the author/creator, if the enterprise or part thereof, to which the right to use belongs, is transferred ¹⁶

13.3 Asset Deal Structure in IP related transactions

13.3.1 General Remarks

The structure of an asset purchase deal may vary depending on the involved IP rights, according to the just above mentioned issues.

The transfer of an invention (either filed for patent registration, registered as patent or neither) is considered as speculative transaction according to the practice of the Austrian Supreme Court; neither the registration nor the continuing validity of the patent may be assessed with reasonable certainty at the time of transaction – and therefore such will regularly not be guaranteed in any purchase agreement. The same applies with transaction involving trademarks: Regularly, the seller of a trademark (or an enterprise containing trademarks) has no guarantee that the trademark does not infringe third parties rights. Both, the seller and the purchaser, may research for conflicting rights; in many cases one may find

¹⁰ However, parties may agree that a licence shall not be transferrable.

¹¹ See footnote 3.

¹² See footnote 3.

¹³ Article 38 of the Patent Act.

¹⁴ Except where agreed otherwise, see Article 11 para 1 of the Trademarks Protection Act

¹⁵ See footnote 7.

¹⁶ Article 28 para 1 of the Copyright Act

a prior right, which may be conflicting – such issues are regularly reflected in (an deduction of) the amount of compensation.

Therefore, it is important for the purchaser of an enterprise where trademarks and/or patents are involved, to conduct a substantial due diligence, in particular conducting research in the (online) registers, patent databases and scrutinizing the contractual relationships related hereto, in particular licences, pledges etc.

Sometimes parties agree to a so called "covered purchase" in form of an exclusive licence agreement granting exclusive and overall rights to the licensee, and the option to acquire the patent or trademark. The purpose of such a transaction may be to veil the ownership of the IP right.

The Austrian law does not provide for *bona fide* acquisition of IP rights, therefore it is utmost important to scrutinize the title to the IP right.

13.3.2 Agreement Structure

An asset purchase agreement containing IP rights may have the following structure (only addressing IP related provisions):

1. It is important that the subject matter of the rights to be transferred is sufficiently described, in particular if know-how, unpatented inventions or rights to use copyrights are transferred. The description can be provided by exhibits of documents, formulae, experimental reports, concepts etc.
2. Patent rights in Austria are acquired only upon and effective with entry into the patent register (*modus*). Therefore, signing and closing of an IP transfer related agreement regularly are severed. Regularly, the parties also execute (or undertake to execute) a separate (form) agreement to present to the Patent Office for having the transfer in ownership registered (which separate agreement does not contain confidential provisions of the asset transfer agreement).
3. Regularly, payment of consideration in a patent transfer agreement will be provided upon submission of the application with the Patent Office to have change in ownership recorded (seller-friendly provision) or (even) after successful change in the records of the patent register (purchaser-friendly provision).
4. In contrast, the entry of the change in ownership in the registry for trademark rights has only declarative effect – however, regularly, payment is also provided upon application for the change in ownership or registration thereof.

The transfer of copyrights is not possible as mentioned above. Therefore, in the area of copyrights only "licensing" (grant of right to use) is possible.

5. Provisions regarding representations and warranties may vary widely regarding the IP right involved. On the one hand, in acquisitions related to patents the seller will regularly not be liable for defects of quality, i.e. if a patented invention is technically not usable or not applicable in trade. In addition, liability for validity or dependancy of the patent will be excluded. This also, regularly, applies for agreements related to trademarks.

On the other hand, the seller will regularly be liable for defects in title, i.e. title to the IP right, granted licenses, pledges or employees' invention rights. The parties will regularly agree that a seller is liable that the status in the (patent or trademark) register is correct and that – to his knowledge – no oppositions or nullity actions have been brought against the IP rights. Regularly, any such representations will be limited to the subjective element – "as to the knowledge".

Any representation and warranty may be combined with indemnification clauses.

6. Agreements will regularly contain secrecy and non-competition clauses (to not work/use the relevant IP right). In addition, non-challenge clauses are rather common.

14. HOW DO YOU STRUCTURE A DEAL WHERE ONLY KNOW-HOW AND CONFIDENTIAL TECHNOLOGY (OF A NON PATENTABLE NATURE) REPRESENT THE MAJOR PART OF THE IP TRANSFERRED? WHAT KIND OF PROTECTIONS ARE CUSTOMARY OR ADVISABLE FOR A BUYER? [IP, M&A]

Regarding the deal structure where know-how and confidential technology is transferred, in principle, the same applies as outlined in item 13.3.2 of question 13. above. Regularly, secrecy and non-competition clauses will be more extensive and safe-guarded via a penalty clause. Representations and warranties clauses may vary from the above in question 13. mentioned. In particular, a seller regularly does not warrant that the know-how is eligible to being patented.

A bona fide acquisition of know-how may be possible.

15. IS THERE ANY SPECIFIC DOCUMENTATION WHICH IS REQUIRED SO AS TO DULY CONSUMMATE CLOSING WHEN IP IS INVOLVED? ARE THERE ANY DIFFERENCES IN STRUCTURING AN IP TRANSFER DEAL AS COMPARED TO AN ASSET DEAL WHERE IP RIGHTS ARE ONE OF THE MOST IMPORTANT PARTS OF THE TRANSACTION? [IP, M&A]

When applying for recording the transfer of a trademark, a patent, a utility model or registered design the applicant must submit a document to the patent office bearing a signature of the person disposing of its rights, with this signature duly notarized (if it is not a public document). As described above, any such documents presented to the patent office regularly are short form agreements not disclosing confidential provisions of the asset purchase agreement (e.g. consideration, reps and warranties etc).

16. CAN YOU STRUCTURE A DEAL WHERE IP IS TRANSFERRED UNDER THE FORM OF A CONTRIBUTION IN KIND? ARE THERE ANY SPECIFIC REQUIREMENTS IN THIS RESPECT (E.G.: SPECIFIC DECISIONS OF THE SHAREHOLDERS' MEETING; ASSESSMENT BY A THIRD INDEPENDENT EXPERT; RULES TO BE COMPLIED WITH BY THE BOARD OF DIRECTORS AND THE LIKE)? [M&A]

IP rights, (non-registered) know-how and confidential technology may be subject to a contribution in kind to a corporation. Corporate provisions exist for contributions in kind against granting of shares in the course of (i) company formations and (ii) capital increases:

- In the course of the formation of a corporation (either a limited liability company ("*GmbH*") or a joint stock company ("*AG*") the Articles of Association which need to be executed in form of a notarial deed must incorporate the provisions regarding the contribution in kind. For the *AG* a company foundation auditor ("*Gründungsprüfer*") is appointed by the competent court. Only chartered public accountants or auditors are qualified as *Gründungsprüfer*. The *Gründungsprüfer* evaluates the value of the contribution in kind and its relation to the nominal value of the granted shares. For the *GmbH* such assessment by a *Gründungsprüfer* is not mandatory, if the contribution in cash comprises at least half of the share capital. In any event, an over-estimation of the contribution in kind is not permissible. The founders are liable towards the company for the respective efficiency of the contributions in kind.
- Contributions in kind via capital increases need a decision of the shareholders assembly of the *AG* at least by a $\frac{3}{4}$ majority (unless provided otherwise by the Articles of Association). Corresponding to the foundation an independent auditor has to assess the value of the contribution in kind. For the *GmbH* the capital increase also needs a $\frac{3}{4}$ majority of the general assembly. The decision needs to be notarized. Regarding the appointment of a *Gründungsprüfer* the provisions regarding the foundation apply; thus, an audit is required, if the contribution in cash does not comprise at least half of the amount of the capital increase.

17. IS IT POSSIBLE IN YOUR JURISDICTION TO HAVE AN ASSET DEAL WITH A NEGATIVE PRICE (EVEN THOUGH THE VALUE OF THE IP TRANSFERRED IS NEVERTHELESS POSITIVE)? IN OTHER WORDS, HOW WOULD YOU TREAT "BADWILL" FROM A LEGAL VIEWPOINT? (PLEASE ALSO REFER TO POINT 32 BELOW). [M&A]

Negative price or bad will is given if the objective value of the acquired assets (going concern value – *Teilwert*) is higher than the acquisition price. There are no civil law restrictions to sell one's assets below its value. A failure to realize the value of one's assets (error in value of assets) usually does not entitle the seller to challenge the validity of the contract.

REPRESENTATIONS AND WARRANTIES. DISCLOSURES. CHANGE OF CONTROL AND SIMILAR CLAUSES

- 18. WHAT KIND OF REPRESENTATIONS AND WARRANTIES ARE CUSTOMARY IN YOUR JURISDICTION TO PROTECT THE BUYER OF IP (EVEN WITHIN THE FRAMEWORK OF AN ASSET DEAL)? ARE QUALIFICATIONS LIKE “TO THE BEST OF THE SELLERS’ KNOWLEDGE” COMMON IN ASSET DEALS? WHAT DOES IT MEAN EXACTLY IN YOUR JURISDICTION? TO WHAT EXTENT CAN A SELLER BE HELD LIABLE IN THE EVENT IP INFRINGES THIRD PARTIES’ RIGHTS? ARE INDEMNITIES CUSTOMARY OR IN ANY EVENT ADVISABLE WITH A VIEW TO PROTECTING THE BUYER? [M&A]**

Regarding reps and warranties see 13.3.2. above.

Qualifications like “to the best of Sellers’ knowledge” are quite common in asset deals and refer to the knowledge that a diligent business man in his area of business should have. As the seller (in case it is a legal person) usually acts through its managing directors the clause refers to the diligence of a managing director as defined under Austrian corporate laws. It has to be noted that the grade of diligence does not refer to the diligence of the specific person in question (subjective view) but is an objective criteria with regard to the diligence that is common in the relevant line of business.

Seller may be held liable for damages in case IP infringes third parties’ rights basically based on the asset deal contract clauses given in this respect. Clauses are customary that Seller indemnifies and holds harmless buyer for any claims and damages the infringed party claims from the buyer plus any additional cost incurred (legal and court fees). Further, clauses to get reimbursed any cost incurred which is necessary to change the IP in a way that it does no longer infringe third party rights (refers specifically to software or change of designs/marks). For the latter case the agreement on indemnities are advisable to protect the buyer as indemnities reduce the buyer’s risk of evidencing his damages and cost incurred.

- 19. WHICH IS THE MOST COMMON METHODOLOGY USED BY A SELLER TO DISCLOSE TO A BUYER POSSIBLE ISSUES CONCERNING IP (E.G.: QUALIFICATION TO THE REPRESENTATIONS AND WARRANTIES, DISCLOSURE LETTER)? [IP, M&A]**

Both methodologies are common and used. If a disclosure letter is used there should be made a qualification to representations and warranties referring to the disclosure letter.

- 20. CHANGE OF CONTROL/NON ASSIGNMENT CLAUSES: IS IT CUSTOMARY TO HAVE CHANGE OF CONTROL/NON ASSIGNMENT CLAUSES IN IP LICENSE AGREEMENTS? DOES THE TRANSFER OF A BUSINESS AS A GOING CONCERN (WHERE IP IS A SIGNIFICANT PART) REPRESENT A SUFFICIENT REASON FOR THE LICENSOR TO TERMINATE A LICENSE AGREEMENT EVEN WITHOUT CHANGE IN CONTROL/NON ASSIGNMENT CLAUSES? [IP, M&A]**

Change of control clauses and non assignment clauses are quite common in order to protect licensees from assignments of the licensors to competitors of the licensee or *vice versa*. There can be made exceptions in changes of ownership clauses with regard to assignments within group of companies or regarding changes of minority shareholdings (below 25%). It is

adviseable also to include trusteeship relationships or pure change in voting rights as trigger in change of control clauses/non-assignment clauses.

Any agreement may be terminated for good cause even if there was no specific clause agreed in this respect. Basically, under Austrian civil law such good cause is given if the mutual basis of trust is disturbed. There is no specific case law whether the transfer of business as a going concern is sufficient reason for termination even without a change in control clause / non-assignment clause. As a rule assignment is permitted under Austrian law if not explicitly contractually excluded. It basically depends on the specific circumstances of the case whether in exceptional circumstances a termination is justified and might be possible if the license relationship is close to a corporate relationship.

THIRD PARTIES' CLAIMS. BREACHES OF IP RIGHTS

- 21. IN THE EVENT OF THIRD PARTIES' RIGHTS WHICH ARE EITHER AFFECTED BY THE TRANSFER, OR WHICH WERE BREACHED BY THE SELLER (WHETHER WILLINGLY OR NOT) PRIOR TO THE TRANSFER (E.G. IN CASE THE SELLER HAD ALREADY BEEN IN BREACH OF THOSE THIRD PARTIES' RIGHTS), WHAT REMEDIES MAY THIRD PARTIES SEEK AGAINST THE BUYER OR SELLER (OR EVEN AGAINST THIRD PARTIES) IN YOUR JURISDICTION? CAN YOU OUTLINE THE PROCEDURE CONCERNING INTERIM MEASURES AND/OR INJUNCTION AS APPLICABLE TO IP RIGHTS? [IP. M&A]**

Third parties may seek primarily for forbearance, restoration of the original status, for adequate remuneration and damages in case of negligence (including loss of profits) or alternatively the profit gained by the infringing party (supported by an entitlement for accounting of the profits made), a right to disclose the produced quantity of infringing products and publication of a positive award (depending on the title forming the basis of the claims).

If a party seeks for an interim measure applicable to IP rights it has to give credible reasons for its infringement but it needs not to prove any danger. After the infringed party seeks for injunctive relief before a court the court may decide to ask the infringing party for a statement or to render the interim injunction without serving the request to the infringing party. From the date of serving the interim injunction the infringing party is forbidden to continue the forbidden use with may be executed by fines that may be requested for every day of infringement. If in the main proceedings the interim injunction is not confirmed, the infringing party may request for damages from the party requesting for interim measures.

- 22. WOULD YOU RECOMMEND SPECIFIC RULES WITH RESPECT TO THE MANAGEMENT OF THIRD PARTIES' CLAIMS (E.G.: THE APPOINTMENT OF LAWYERS, THE DECISION AS TO THE STRUCTURE AND CONTENTS OF THE DEFENCE, ALLOCATION OF COSTS AND THE LIKE)? [M&A]**

It is recommended to agree that approval is needed for any claim that refers to IP transferred on basis of an asset deal as this has usually impact on the reps and warranties granted. It should be clarified whether the sellers' or the buyers' lawyers will defend the claims. In any case it should be inserted a clause that the other party is obliged to provide information and has a right to information and on mutual assistance. Further an agreement

on reimbursement of adequate lawyers' cost and who should bear the cost is advisable. If there are several claims there should be a coordination and a mutual assistance and information requirement agreed. In case of several claims and identical claimants and defendants it should be evaluated whether it is possible to have only one proceeding.

23. WHAT ARE THE METHODS IN PRACTICE AND LAW FOR CALCULATING DAMAGES FOR BREACHES OF IP? [IP]

The party may claim in case of infringement adequate reimbursement which is usually based on an adequate licence fee ("licence analogy"). Further, in case of negligence the injured party may claim damages including loss of profits. Irrespective of the evidence of actual damage incurred the injured party may claim twice the amount of the adequate reimbursement (in case of gross negligence or willful misconduct). Alternatively the injured may request the profits earned through the infringement from the infringing party.

24. IS IT CUSTOMARY (OR IN ANY EVENT POSSIBLE) TO HAVE SPECIFIC TAILOR MADE INSURANCE POLICIES FOR IP? [IP]

Such insurance policies are rather not customary in Austria and I am not familiar with a practical case. Regularly, defence insurances do not cover expenditures of legal proceedings based on IP.

25. IS THERE A SPECIALIST TRIBUNAL FOR BREACHES OF IP? [IP]

Usually the commercial court is the competent court for breaches of IP. The Commercial Court of Vienna is exclusively competent for civil proceedings based on patent infringements. For cancellation procedures the patent office is the competent court.

IP RIGHTS AND ANTI-TRUST

26. IP AND NON COMPETITION: ARE SPECIFIC NON COMPETITION COMMITMENTS ADVISABLE OR CUSTOMARY IN YOUR JURISDICTION IN THE EVENT OF AN ASSET DEAL WHERE IP HAS A SIGNIFICANT IMPACT? [M&A, ANTI-TRUST]

It is advisable to include a clause in the contract that

- the seller will not register similar IP or have it registered by third parties and will not attack buyer's IP. Although the buyer as new owner of the IP has a right to request forbearance and cancellation based on IP rights an additional contractual clause – especially combined with a penalty clause – could be very helpful in enforcing one's rights.
- the seller will not compete with the buyer for a certain period of time and for a specific market. This clause is specifically advisable if the sold assets included know how and customer relationships (good will). Usual are non-compete periods between one and five years. Periods longer than five years could be deemed as anti-competitive under Austrian cartel law and not subject to clearance under merger control provisions. Such clauses are deemed in any case as not anti competitive if they are necessary in order to secure a smooth transaction (ancillary restraints) (but non

compete periods longer than five years are usually not deemed as ancillary restraints).

27. PLEASE DESCRIBE THE RULES REGARDING ANTI-TRUST CLEARANCES APPLICABLE ON ASSET DEALS WHERE IP HAS A SIGNIFICANT IMPACT. [M&A, ANTI-TRUST]

There are no specific rules of clearances for asset deals involving significantly IP. The general rules apply (as of January 1, 2006 new amended rules apply in order to establish conformity with EC-Regulation 1/2003).¹⁷

Filings have to be made mandatorily with the Federal Competition Authority (*Bundewettbewerbsbehörde*), if certain turnover criteria are met. The notification must be published by the Federal Competition Authority on their web-page. Concerned third parties are entitled to provide their statements within 14 days upon publication.

A merger notification must be made if there is an effect on the Austrian market and if in the last fiscal year before the transaction the combined aggregate turnover of the undertakings concerned (e.g. buyer and target company, merging companies) was

- on the worldwide market: at least EUR 300 million
- on the Austrian market: at least EUR 30 million, and if
- at least two of the entrepreneurs or undertakings concerned each had an annual turnover of EUR 5 million on the worldwide market.

There is however no notification requirement, if in the last fiscal year before the transaction the turnover of the undertakings concerned was

- on the Austrian market: only one of the undertakings concerned achieved more than EUR 5 million, and
- on the worldwide market: the other undertakings concerned achieved an aggregate turnover of not more than EUR 30 million.

In applying the first two turnover thresholds (but not the third threshold) the turnovers of media undertakings must be multiplied by a factor of 200, for media support undertakings by a factor of 20.

All other mergers not fulfilling the merger thresholds set forth above do not require a filing.

Within four weeks upon receipt of the notification of the Federal Cartel Authority the Federal Cartel Authority and the Federal Cartel Prosecutor may ask the Cartel Court for an in depth investigation of the merger (second phase). Such request for in depth investigation must be published by the Federal Cartel Authority on their web-page. Concerned third parties are again entitled to render their statements. The Cartel Court has to decide on the merger within 5 months upon receipt of the request for in depth investigation.

¹⁷ See also Webpage of Federal Cartel Authority: www.bwb.gv.at

There is a so-called “short form-notification” available if specific conditions are met. The official parties (Federal Competition Authority and Federal Cartel Prosecutor) may before the end of the statutory 4-week review period waive their right to apply for an in depth (second phase) investigation in cases they do not raise competition concerns.

The first phase of four weeks ends either by a waiver of the official parties to apply for an in depth investigation, by elapse of the four weeks period without any application for in depth investigation or by an application of at least one official party for an in depth investigation.

The merger must not be implemented before the end of first phase or clearance by the Cartel Court after the second phase started (“standstill obligation”). Any merger falling under the Austrian merger control regime will be legally void and prohibited and must not be implemented until it has been cleared (or first phase ended).

If, however, a request for an in depth investigation (second phase) is made, the Cartel Court reviews whether the circumstances of the concentration require a prohibition. The Cartel Court has five months from the initial notification to investigate the merits and either prohibit the concentration or clear it (or declare that no concentration exists at all). In practice suspensive conditions are agreed between the parties.

Decisions of the Cartel Court are subject to appeal by the official parties and all notifying parties within 4 weeks from service of the decision. The appeal is heard by the Supreme Court as Appellate Cartel Court (*Oberster Gerichtshof als Kartellobergericht*).

28. HAVE YOU EVER WORKED ON A TRANSACTION WHERE IP MATTERS HAD A STRONG CONNECTION WITH ANTI-TRUST MATTERS? ARE THERE ANY SPECIFIC SOLUTIONS OR RECOMMENDATIONS? [IP, M&A, ANTI-TRUST]

Austrian case law does not provide for cases where IP matters had a strong connection with anti-trust matters. As Austrian cartel law is in the meantime more or less aligned with European cartel law it is strongly recommended to comply with the rules given by the European Commission and the case law of the European courts.

TAX ASPECTS OF IP TRANSFER.

29. IS THERE A SPECIFIC TAX TREATMENT FOR IP TRANSFERS? DOES IT DIFFER WHEN IP IS TRANSFERRED WITHIN THE FRAMEWORK OF AN ASSET DEAL? [IP, TAX]

There is no specific tax treatment for IP transfers. The difference between an asset deal and a share deal is that in case of an asset deal all (or part of the) assets are transferred and in case of a share deal the share in the company holding the assets are transferred. In the case of an asset deal losses carried forward remain with the seller (except in certain forms of corporate restructuring transfers enjoy the benefit under the “Austrian Restructuring Tax Act” (*Umgründungssteuergesetz*) i.e. losses carried forward can belong to the buyer), in case of a share deal the losses carried forward remain within the company and are therefore “transferred” (with certain exceptions regarding umbrella acquisitions).

30. IS IT POSSIBLE OR CUSTOMARY IN YOUR JURISDICTION TO ALLOCATE A PART OF THE GOODWILL ON IP? [IP. TAX]

The buyer usually books all acquired assets with the acquisition cost derived from the purchase price on basis of a going concern value (*Teilwert*) and the residual value is booked as good will. The going concern value is an objective value i.e. a value which the buyer would objectively contribute to each asset. The remaining difference thus has to be allocated as (acquired) goodwill (this is mandatory under tax law but optional under commercial accounting laws). If the buyer allocates to each asset more than the sellers' book value the difference is not good will but realisation of hidden reserves.

31. CAN THE TRANSFER OF IP RIGHTS BE CONSIDERED ONLY AS A TRANSFER OF A BUSINESS AS A GOING CONCERN (IN MANY JURISDICTIONS, THE TRANSFER OF A SINGLE ASSET, EVEN IF NOT ACCOMPANIED BY THE TRANSFER OF OTHER ASSETS, PERSONNEL, AGREEMENTS OR OTHER ELEMENTS RELATED TO A BUSINESS, MAY PER SE BE CONSIDERED AS THE TRANSFER OF A BUSINESS AS A GOING CONCERN) ? IS THERE A DIFFERENT TAX TREATMENT IN SUCH A CASE? [M&A, TAX]

If the IP rights are the basis of the conduct of business of the seller and if the buyer may continue to conduct the business by acquiring the IP rights the transfer may be deemed as transfer of a business as a going concern, if the transfer is based on a uniform transfer act. There is a difference in the tax treatment of seller, if there is a transfer of a business as a going concern, i.e. if the seller is a natural person seller enjoys a favorable tax treatment (half of average tax rate), if specific circumstances are given (but not as a general rule). This does not apply if seller is a corporation.

32. UNDER POINT 17 YOU HAVE DESCRIBED IF AND TO WHAT EXTENT THE CONCEPT OF A NEGATIVE PRICE (OR BADWILL) IS LEGALLY TREATED. CAN YOU NOW DESCRIBE BADWILL AND ITS RULES FROM A TAX AND ACCOUNTING VIEW POINT? [TAX]

Negative price or bad will is given if the objective value of the acquired assets (going concern value – *Teilwert*) is higher than the acquisition price. This badwill will not reported in the books, instead the acquisition cost of each asset have to be reduced pro rata. The acquisition cost of the buyer form the basis for depreciation. Thus, badwill does not lead to a decrease of the taxable income but to an increase.

MISCELLANEOUS

33. ARE THERE ANY OTHER PARTICULAR ASPECTS, NOT COVERED BY THE ABOVE QUESTIONS, WHICH HAVE TO BE HIGHLIGHTED IN YOUR JURISDICTION? [IP, M&A]

The buyer of assets or an undertaking is liable for all liabilities belonging to the assets which he knows or should have known. This rule does not apply if the assets were bought from an bankruptcy estate. This liability of the buyer is mandatory and cannot be excluded by mutual consent. The liability is capped with the value of the acquired assets. According to the case

law the liability is reduced as far as the purchase price is used for the settlement of the claims of the creditors. There apply similar rules for taxes and social insurance contributions. There should be inserted an explicit clause in a purchase agreement that buyer is intitled to pay (part of) the purchase price directly to seller´s creditors.

Biographies:

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