

# Technology M&A

*Contributing editors*

**Arlene Arin Hahn and Jason Rabbitt-Tomita**



**2019**

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DEAL THROUGH

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# Technology M&A 2019

*Contributing editors*

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**Law**  
**Business**  
**Research**

Published by  
Law Business Research Ltd  
87 Lancaster Road  
London, W11 1QQ, UK  
Tel: +44 20 3780 4147  
Fax: +44 20 7229 6910

© Law Business Research Ltd 2018  
No photocopying without a CLA licence.  
First published 2018  
First edition  
ISBN 978-1-78915-122-0

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This article was first published in November 2018  
For further information please contact [editorial@gettingthedeathrough.com](mailto:editorial@gettingthedeathrough.com)

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Printed and distributed by  
Encompass Print Solutions  
Tel: 0844 2480 112

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# Preface

## Technology M&A 2019

First edition

**Getting the Deal Through** is delighted to publish the first edition of *Technology M&A*, which is available in print, as an e-book and online at [www.gettingthedealthrough.com](http://www.gettingthedealthrough.com).

**Getting the Deal Through** provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

**Getting the Deal Through** titles are published annually in print and online. Please ensure you are referring to the latest edition or to the online version at [www.gettingthedealthrough.com](http://www.gettingthedealthrough.com).

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

**Getting the Deal Through** gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to Arlene Arin Hahn and Jason Rabbitt-Tomita, the contributing editors, for their assistance in devising and editing this volume.

GETTING THE   
DEAL THROUGH 

London  
October 2018

# Mexico

Gunter A Schwandt G and Jenny Ferrón C

Nader, Hayaux y Goebel, SC

## Structuring and legal considerations

- 1 What are the key laws and regulations implicated in technology M&A transactions that may not be relevant to other types of M&A transactions? Are there particular government approvals required, and how are those addressed in the definitive documentation?**

M&A transactions in Mexico are mainly regulated under the following laws and regulations:

- the Negotiable Instruments and Credit Transactions Law;
- the Mexican Corporations Law;
- the Foreign Investment Law;
- the Code of Commerce;
- the Federal Civil Code;
- the Securities Market Law;
- the Federal Antitrust Law; and
- the Federal Labour Law.

With respect to technology M&A transactions, in addition to the foregoing, the Industrial Property Law, the Federal Copyright Law, the Federal Law for the Protection of Personal Data and the Federal Vegetable Varieties Law (as pertains to biotechnologies), among others, may apply, as well as several international agreements to which Mexico is a party, including the North American Free Trade Agreement, the Mexico-EU Free Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (which includes robust protections to digital assets and term lengths). Mexico is also a member of the World Intellectual Property Organization.

The main governmental authorities that overview intellectual property laws in Mexico are the following:

- the Office of the Attorney General;
- the Mexican Institute of Industrial Property (IMPI);
- the National Institute of Copyright (Indautor); and
- the Federal Commission for the Prevention of Sanitary Risks.

The IMPI and Indautor are the offices that oversee patent and technology registrations, including any assignments thereof.

The Federal Antitrust Commission is a relevant authority to any M&A transaction related to Mexican corporations or Mexican assets; however, if the transaction involves the telecommunications sector, the competition authority is the Federal Telecommunications Institute. According to Mexican competition law, any act of merger, acquisition of control or other act taking place between competitors, suppliers, clients or other economic agents and by virtue of which corporations, associations, shares, quotas, trusts or assets in general are concentrated requires a notice to be filed in writing before the relevant authority before such transaction taking place, and subject to the requirements and thresholds set forth in the law.

Thresholds apply when the act (or succession of acts) represent the equivalent of approximately US\$72.5 million; imply the accumulation of 35 per cent or more of the assets or shares of an economic agent, whose annual assets in Mexico or annual sales originated in Mexico represent more than the equivalent of approximately US\$72.5 million; or imply the accumulation in Mexico of assets or corporate capital in excess of the equivalent of approximately US\$33.8 million and two or more agents who take part in the transaction have assets or annual

sales that, jointly or individually, represent more than the equivalent of approximately US\$193.4 million.

- 2 Are there government march-in or step-in rights with respect to certain categories of technologies?**

Regulations in Mexico do not set forth any specific march-in or step-in rights with respect to technology or intellectual property; however, the Mexican Constitution recognises the Mexican government's right to expropriate private property when such seizure is in the benefit of the general public and subject to the applicable procedures provided by law. Such expropriation may include technology and IP rights. The Constitution dictates that the government must provide fair compensation (based on the fiscal value of the property) for the seized property.

There also exists a concept of 'mandatory licences', in which case, whenever a registered patent has not been commercially exploited for the past three years, any person (individual or corporation) may request the IMPI to grant a mandatory licence for the use of such patent.

- 3 How is legal title to each type of technology and intellectual property asset conveyed in your jurisdiction? What types of formalities are required to effect transfer?**

In Mexico, intellectual property that is registered as a patent is typically transferred through a written assignment, duly registered with the IMPI.

Software and other technology assets are registered as copyrights, and therefore incorporate two types of rights: moral rights, which protect the authorship and the integrity of the work and are not transferable, since they are permanently attached to the author; and economic rights, which grant the author the right to commercially exploit the asset and the right to transfer or license such rights to a third party. Economic copyrights are transferred through a written assignment, and registered with Indautor. Each transfer must be made for a limited term (a maximum term of 15 years) and, if the assignment agreement does not establish a certain term, the Federal Copyright Law provides that the term of the transfer will be five years. The law establishes an exception for literary and software economic rights, where the term may be indefinite as long as the assignment agreement is duly registered before Indautor.

Recently, technology transfer agreements known as 'know-how agreements' have started to appear in Mexico, whereby the legal title of patents or industrial secrets, not registered before a Mexican authority, are being transferred. Such agreements also include the obligation of the transferor to train and consult the transferee on the correct use of the applicable asset during a period of time. Such agreements do not need to be registered before the IMPI.

## Due diligence

- 4 What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?**

In a share acquisition or merger dealing with technology and IP assets, the due diligence that is undertaken typically includes the review of:

- corporate documentation (deed of incorporation, by-laws and amendments thereto, powers-of-attorney, corporate books and

### **Update and trends**

The Federal Antitrust Commission has been particularly active in the enforcement of its authority during the past year, performing several investigations and imposing fines (which, in several cases have been substantial). Antitrust review is now an important part of any M&A transaction in Mexico and an intelligent approach with the agencies has become more and more important.

Additionally, as more technology transactions take place, the regulation of technology and technology assets will play a more important role and create a more sophisticated market. In recent transactions, data breach security and cybersecurity attacks have become part of the due diligence process and are starting to influence the representations and warranties applicable to these type of transactions, as well as the indemnities required by buyers.

registries, current distribution of capital stock of the target and subsidiaries, among others);

- a list of licence agreements for the use of patents, trademarks and trade-names, either licensed by or to the target and subsidiaries;
- licences and ownership documents regarding the relevant technology and IP rights;
- a list of technical assistance, services and know-how agreements, either licensed by or to the target and its subsidiaries;
- a list of trademarks, patents and commercial denominations registered before the IMPI on behalf of the target and subsidiaries or applications thereof and current status;
- copies of all standard contracts used by the target or subsidiaries (or any agent or distributor of any of them) to grant licences and which involve payments to the target or subsidiaries on other than a one-time, flat fee basis (ie, contracts that involve payments of a per customer or percentage of revenue or usage-based fee);
- review of relevant foreign investment registries; and
- mergers, acquisitions, consolidations or joint venture agreements, including agreements relating to any sale of assets or business in the last five years, among others.

In an asset purchase dealing with technology and IP assets, due diligence will be focused on the ownership and maintenance of the asset, including any payments of fees, royalties or annuities regarding the relevant patent or technology, all liens, charges or attachments, along with all contracts, agreements, indentures or instruments related to the relevant assets.

#### **5 What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?**

Public searches and available public information regarding patents in Mexico is done through the IMPI website ([www.gob.mx/impi](http://www.gob.mx/impi)), including patent applications, granted patents, granted utility models and granted designs. Also, the search engine SIGA ([siga.impi.gob.mx](http://siga.impi.gob.mx)) may be used for searches regarding publications in the Official Gazette related to intellectual property. Some of the relevant results may include granted patents, administrative proceedings, writs and related payment documents.

Regarding copyrights, searches may be conducted through MARCANET ([marcanet.impi.gob.mx](http://marcanet.impi.gob.mx)) where any copyrights, trademarks, commercial names, among other information, is available to the public. Notwithstanding the foregoing, an on-site search at the offices of the IMPI and Indautor is advisable to gather the most recent information.

#### **6 What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?**

The following types of intellectual property are registrable under Mexican law:

- Industrial property or patents: this type of intellectual property includes any invention with inventive technical features, as long as it has an industrial application and novel characteristics and includes utility models, design rights and industrial designs. The

following may not be registered as industrial property assets: plant varieties, the human body or any living matter regarding human bodies, any animal breeds, all biological or genetic material existing in nature and biological processes for obtaining and reproducing plants and animals.

- Copyrights: computer programs, radio and television, music, cinematographic, artistic or literary works and any compilation works (including big data), among others.
- Trademarks: word marks, design marks, combined marks, three-dimensional marks, advertising slogans and trade names. Slogans and trade names are not registered, but published for the purpose of establishing a presumption on their adoption and use in good faith.
- Appellations of origin: these may only be registered on the Mexican government's behalf and include any geographical region of Mexico that creates a special designation for a product originating from it.
- Layout design for integrated circuits: electronical arrangements designed for an electronic device.

Reservation of rights are not registrable assets; however, the Mexican government provides a protection to such rights by securing a reservation of rights certificate before Indautor. These rights include: names of serial publications whether printed or electronic, names of shows broadcast on television, radio or the internet, original characteristics (physical and psychological) of characters, artistic names and original advertisement mechanisms.

Trade secrets and confidential information are not registrable; however, Mexican regulation recognises the right to protect confidential information, such as through the use of non-disclosure agreements or other similar arrangements. Confidential information may be construed as industrial secrets whenever such information is used in the manufacturing method or distribution process of products or services or whenever non-obvious information is used by a technical expert to achieve competitive or economic advantage. Industrial secrets are protected under Mexican law, and therefore the non-authorised use of industrial secrets may be punishable through the imposition of fines or the payment of damages.

See questions 4 and 5 regarding the due diligence typically undertaken with respect to the foregoing.

#### **7 Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?**

Liens and security interests may be granted on a patent through a non-possessory pledge agreement, which shall be formalised in writing and registered before the IMPI to be enforceable against third parties and to establish a right of pre-emption for the secured party. In the case of copyrights, moral or economic rights may not be directly subject to liens or security interest; however, an indirect lien may be obtained by granting a security interest over the proceeds of the commercial exploitation of the economic rights. Such security interest may be granted through a pledge agreement or a guarantee trust agreement.

The enforcement of such security interests requires a formal resolution dictated by a competent Mexican court, except for the case of a guarantee trust agreement, where in addition to the foregoing an out-of-court expedited process may be agreed by the parties.

#### **8 What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?**

According to federal labour law, employers own any industrial property rights to all inventions developed by their employees as long as the invention is within the scope of their employment, and the main purpose of the employment is the development of such invention. Regarding copyrights, the moral rights are owned by the employee but the economic rights must be divided equally between the employee and the employer, unless the employment contract already determines otherwise. The same applies to contractor inventions and copyright works.

Because of these rules, the due diligence process regarding employee-created and contractor-created intellectual property and technology involves the review of:

- a sample of the target's different types of employment agreements, including definite term or specific job agreements, as well as independent professional services agreements;

- the benefits granted to the employees, either mandatory or at the target's or subsidiaries' discretion, indicating granting criteria, costs for the target, subsidiaries and employees, discount form, including any differentiated benefits granted to executives;
- contracts with human resources providers;
- termination policies and corresponding payments;
- labour lawsuits or contingencies and their current status, settlement agreements, arbitration awards, judgments, resolutions or orders in employment matters; and
- any labour unions documentation, among others.

**9 Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?**

Except by the requirements mentioned in question 3 above, no additional requirements exist for the transfer or assignment of licensed intellectual property and technology.

**10 What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?**

Generally, software due diligence is undertaken following the same principles as with any other M&A or asset purchase due diligence (see question 4). Note, however, that the specific transaction and asset particulars may require additional documentation and processes that should be reviewed by the buyer. In some cases the provision of code scans or open source code may be required from the target; if this is the case, an applicable non-disclosure agreement or confidentiality agreement may be warranted.

Additionally, owing to new competition criteria adopted by the Federal Antitrust Commission, when two or more competitors, suppliers, clients or economic agents are involved in a merger, acquisition of control or other similar transaction, and such transaction requires sharing relevant strategic information (such as, *inter alia*, software and codes), the recipient of such information should not be involved in the strategic decision-making of the company that such recipient represents and should be shared through a third party or a 'clean team'.

**11 What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?**

M&A transactions in Mexico involving special or emerging technologies, such as artificial intelligence, internet of things and big data, are still relatively new and, therefore, a specific market practice has not been established yet, although general principles and market standards

will continue to apply as a general matter. However, purchasers in the transaction will rely heavily on the representations and warranties provided by the sellers and, therefore, drafting of the representations and warranties, as well as potential indemnities to cover breaches or inaccuracies regarding same, will be an important part of the negotiation in the transaction.

**Purchase agreement**

**12 In technology M&A transactions, is it customary to include representations and warranties for intellectual property, technology, cybersecurity or data privacy?**

Yes. Market practice in Mexico generally includes representations and warranties for intellectual property, technology, cybersecurity and data privacy in technology M&A transactions. Such representations and warranties will require the seller or the target, as the case may be, to represent that:

- it is the sole and exclusive owner of the applicable asset;
- the asset is not limited or subject to any encumbrances, any pending or threatened legal proceedings (including those challenging its IP rights);
- all due diligence documentation provided to the buyer was true at the time of review and continues to be true as of the closing date;
- all employees, contractors or third parties have assigned their rights to any intellectual property (including any rights of first refusal); and
- all IP rights are duly registered and such registries have been properly maintained, including payment of any applicable fees, among others.

It is important to also include confidentiality, governing law and jurisdiction, human resources and non-compete clauses in all carveout or asset sale agreements regarding technology or IP assets.

**13 What types of ancillary agreements are customary in a carveout or asset sale?**

The following agreements may be present in a carveout or asset sale regarding technology or IP assets:

- Transition services agreements: whereby the seller agrees to provide the buyer with the necessary infrastructure support for a certain period of time after the applicable transaction takes place. These agreements may include provisions dealing with other non-IP- or technology-related transitional services.
- Transitional trademark licence agreement: this agreement may be used when the buyer will not obtain long-term rights to one or more of the seller's trademarks after the transaction closes; therefore,



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effective as of the closing date, the seller grants the buyer (and its affiliates) for a certain period of time a royalty-free, non-exclusive irrevocable licence to use in connection with the acquired business or transaction.

**14 What kinds of intellectual property or tech-related pre- or post-closing conditions or covenants do acquirers typically require?**

Buyers will typically require tech-related pre- or post-closing conditions or covenants depending on the findings arising from the due diligence review and the disclosure schedules provided by the seller, as well as the negotiation of the transaction. Fundamental representations and warranties, such as ownership of the applicable assets, may trigger additional covenants, for example, correction of chain of title, IMPI registrations and other remediation activities.

**15 Are intellectual property representations and warranties typically subject to longer survival periods than other representations and warranties?**

Fundamental representations and warranties, such as ownership, registration and maintenance of the applicable asset are generally subject to indefinite survival periods. Other non-fundamental representations and warranties may be subject to survival periods of up to 24 months or the applicable statute of limitations.

**16 Are liabilities for breach of intellectual property representations and warranties typically subject to a cap that is higher than the liability cap for breach of other representations and warranties?**

Breaches of fundamental representations and warranties related to intellectual property (eg, ownership, absence of liens and encumbrances, and others) in these types of transactions will not be typically subject to a cap. Other non-fundamental representations may be subject to the cap in place for breach of all other representations, which typically will be a percentage of the purchase price. These representations would also be subject to the general de minimis thresholds, baskets or deductibles usually found in M&A transactions.

**17 Are liabilities for breach of intellectual property representations subject to, or carved out from, de minimis thresholds, baskets, or deductibles or other limitations on recovery?**

See question 16.

**18 Does the definitive agreement customarily include specific indemnities related to intellectual property, data security or privacy matters?**

As a general rule, specific indemnities related to intellectual property, data security or privacy matters are not customarily found in definitive agreements for M&A transactions in Mexico. However, depending on the particularities of the transaction, as well as the due diligence findings, inclusion of specific indemnities may be warranted. We believe that, as the market continues to develop and M&A transactions dealing specifically with technology assets continue to rise, new standards of indemnities may become applicable as market practice.

**19 As a closing condition, are intellectual property representations and warranties required to be true in all respects, in all material respects, or except as would not cause a material adverse effect?**

Generally, buyers will push for fundamental representations and warranties related to intellectual property to be true in all respects at closing, without regard to any materiality qualifier that may have been included in the relevant representation.

## *Getting the Deal Through*

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