

Post-acquisition technology transfer issues in Italian M&A transactions

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This guide highlights some of the intellectual property, employment and tax issues arising from the acquisitions of Italian companies and Italian businesses, particularly where the buyer, post-acquisition, wants to transfer the technology acquired.

Are there any protected industries?

Yes – acquisitions of companies in the defence, media, financial services and utilities sectors may require approval.

Do employees have to be informed or consulted about a proposed acquisition?

Business purchase

Yes if the company has more than 15 employees – the buyer and the seller have to inform and consult with external and internal trade unions. The transfer can usually be implemented 25 days after informing the unions.

No employee consent is, however, needed.

Share purchase

There is no need to inform or consult with either party's employees.

No employee consent is needed.

What rights do employees have if they are dismissed after an acquisition/business purchase?

On a business transfer, a dismissal of an employee will be automatically unfair if the sole or principal reason for the dismissal is:

- the transfer itself, or
- a reason connected with the transfer that is not a 'TO' reason (technical or organisational reason entailing changes in the workforce).

On termination of employment after a share purchase ('ordinary redundancy termination'), or a termination that amounts to a TO on a business purchase, employees would

be entitled on termination to payments due under the contract of employment (notice and other benefits, severance payments) plus (usually) a statutory redundancy payment.

However, a TO dismissal (and an ordinary redundancy termination) can be unfair if the employer does not follow a fair dismissal process, opening the door to an unfair dismissal claim, with statutory compensation, reinstatement (or high payment in lieu).

The pension position must be thoroughly investigated on both share purchases and business transfers.

In the event of the transfer of a line of business, the allocation of employees to the line of business under transfer must be carefully considered to avoid or reduce the following objections by the employees in such respect.

Substantial employment law reform is currently under debate by the Italian Government and radical changes are expected in terms of the laws relating to dismissals and redundancies, how the relevant procedures will have to be implemented and also the entitlements of employees.

What types of IP might a company own?

The key intellectual property (IP) rights in Europe are patents, trade marks and other distinctive signs (including domain names), designs, copyright and know-how. Further rights that will be relevant to certain business sectors include supplementary protection certificates, database rights, plant variety rights and semi-conductor rights.

The European IP system recognises registered and unregistered IP rights. Patents, trade marks and certain designs are registered rights. Patents and national trade marks are registered in national intellectual property offices. The Italian patent and trademark office (UIBM: Ufficio Italiano Brevetti e

Marchi) can be accessed at www.uibm.gov.it. Their scope of protection is national but they may be owned by businesses resident in other countries. Community trade marks (CTMs) and registered Community designs (RCDs) are registered with the Office of Harmonization for the Internal Market (OHIM). Their scope of protection is European Union wide.

Copyright and unregistered Community designs do not need to be registered. Know-how is not registrable, but it may include material protected by confidentiality undertakings.

Some countries have rights that are particular to their own national laws. For example, Italy recognises unregistered design rights and unregistered trademark rights, even if a lesser degree of protection is granted to these. Moreover, under Italian law know-how is protected per se if only properly kept secret, irrespective of confidentiality undertakings. Database and software may qualify for copyright protection.

Can the IP rights be transferred to a non-Italian buyer?

Business purchase

Yes – IP rights would have to be assigned by contract. For registered national rights (patents and trade marks) formalities may apply to have the owner's name changed at the national IP office of registration. For CTMs and RCDs this will be at OHIM.

In the case of licences to IP rights, these can be assigned by contract, subject to restrictions in the licence. Alternatively, they may be novated.

Share purchase

On a share purchase, the rights remain in the ownership of the company being acquired and so there is no need to assign, typically. However, they may still be assigned to the purchaser if necessary. Similarly licences to which the target company is a party will remain with the company on a share purchase, but these may be assigned to the purchaser intra-group, subject to restrictions in the licence terms.

Can the IP rights be licensed to a non-Italian buyer?

Business purchase

Yes – IP rights can be licensed to a non-Italian buyer, as an alternative to assignment, but this implies that ownership of the right remains with the licensor target company.

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Share purchase

On a share purchase, no assignment is necessary because the IP rights remain owned by the target company. However, they can be licensed to the purchaser company intra-group.

What are the main Italian tax issues associated with the assignment or licensing of IP rights to a non-Italian buyer?

Business purchase

From the seller's perspective, selling the business of an Italian company – including an assignment or licence of IP rights – is often unattractive from an Italian tax perspective when compared with a share sale, unless the Italian company has appropriate tax reliefs to shelter any taxable income/gain.

The transfer of the business is not subject to Italian VAT. An assignment or licence of IP rights to a non-Italian buyer should not generally be subject to VAT. However, a non-Italian buyer which belongs for VAT purposes in another EU member state may be liable to account for VAT on the assignment/licence in that member state by way of 'reverse charge'.

No Italian withholding taxes apply to payments to an Italian company for the assignment or licensing of IP rights. However, a non-Italian buyer may need to withhold non-Italian taxes from, for example, royalties.

Share purchase

If the IP rights owned by the Italian target company will be assigned/licensed intra-group post-acquisition, the main Italian tax consideration is that an intra-group assignment/licensing of IP rights to a non-Italian buyer is generally treated for Italian tax purposes as taking place at market value/on arm's length terms. This may result in taxable income/gains for the Italian target company, depending on its tax position. Dividends paid to the non-Italian buyer out of the proceeds of the assignment/licensing by the Italian company are generally subject to Italian withholding tax.

Substantial reduction in the withholding tax there may be if the buyer belongs to another EU member state and certain other conditions are met.

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