

# Share Purchases: Industrial and Intellectual Property Issues (Spain)

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A Practice Note on how to deal with the intellectual property issues arising on a share purchase or the acquisition of a company or its assets in Spain.

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Intangible assets constitute valuable elements in any business. They are protected through intellectual and industrial property rights (IPRs), which are an essential component in most economic transactions.

IPRs are the core drivers of sectors such as technology, pharmaceuticals and communications. However, they are owned or licensed by companies in all sectors and play a crucial role in business growth and expansion. For this reason, it is necessary to identify the IPRs that each entity uses in the course of its commercial activity and protect them appropriately.

This Note sets out the key issues in relation to IPRs in the context of a share purchase transaction of a Spanish company. Where relevant, the key differences between the treatment of IPRs in a share purchase, and of IPRs in an asset purchase, are highlighted. For more information on the differences between a share purchase transaction

and an asset purchase transaction generally, see *Practice Note, Acquisition Structures: Comparing Asset and Share Purchases (Spain)*.

This note outlines the main types of IPRs to consider in a share deal and provides practical instructions on how to structure their transfer.

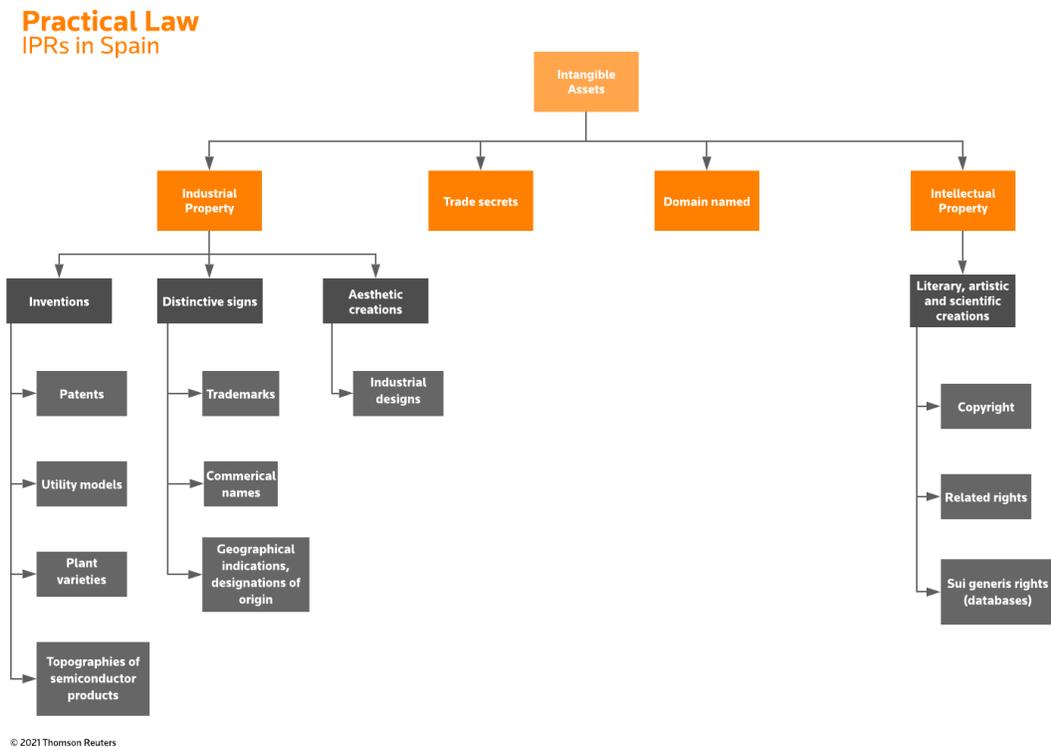
## IPRs in Spain: the Basics

To identify the IPRs used and exploited by the company that is to be acquired and to determine whether those IPRs are adequately protected, a distinction must be made between:

- **Intellectual property rights**, which comprise works of authorship and other creations like software and databases (under a *sui generis* right).
- **Industrial property rights**, which cover inventions, distinctive signs and other creations related to the industry.

In many jurisdictions, the term "intellectual property" refers jointly to what under Spanish law is separately considered intellectual property and industrial property. In this Note, both terms will be distinguished as necessary as there are several notable differences in their legal regime in Spain.

Below is a diagram classifying the most common forms of IPRs:



The tables below contain a summary of the relevant information on the most common forms of IPRs under applicable regulations in Spain.

## Industrial Property Rights

<b>Patents</b>	
Description	<p>A patent is a title that grants its holder the exclusive right to exploit the patented invention, preventing third parties from manufacturing, selling or using it without the holder's authorisation.</p> <p>For patenting purposes, an invention is a technical rule (or set of technical rules) for solving an objective technical problem. That invention may relate to a product consisting of or containing biological material, or to a process by which biological material is produced, processed or used.</p>
Legal requirements	<p>Novelty.</p> <p>Inventive step.</p> <p>Capable of industrial application.</p>
Registrability	Registration required before the Spanish Patent and Trade Mark Office (SPTO).
Duration	<p>20 years from the date the application is submitted to the SPTO, extendable in certain cases for medicine-related inventions under a supplementary protection certificate.</p> <p>Non-renewable.</p>
Main applicable regulations	<p>Act 24/2015, of 24 July, on Patents (<i>Ley 24/2015, de 24 de julio, de Patentes</i>) (<i>Patents Act</i>) (in force for applications after 1 April 2017).</p> <p>Act 11/1986, of 20 March, on Patents (<i>Ley 11/1986, de 20 de marzo, de Patentes</i>) (currently not in force, only applicable for applications before 1 April 2017).</p> <p>Royal decree 316/2017, of 31 March, approving the regulation to execute Act 24/2015, of 24 July, on Patents (<i>Real Decreto 316/2017, de 31 de marzo, por el que se aprueba el Reglamento para la ejecución de la Ley 24/2015, de 24 de julio, de Patentes</i>) (<i>Patents Regulation</i>).</p>
<b>Trade marks</b>	
Description	Any sign, especially words, including names, designs, letters, numerals, colors, the shape of goods or of their packaging, or sounds that meet the legal requirements listed below.
Legal requirements	<p>Must allow a distinction to be made between the products and services of one company from the rest.</p> <p>Must be capable of representation.</p>
Registrability	<p>Registration required before the SPTO.</p> <p>As an exception, unregistered renowned trade marks have some degree of, but not full, legal protection.</p>

	Renowned trade marks are those that "are known to the general public". For a trade mark to be renowned, it must be known not only by a particular sector of consumers, but by the public in general, whether or not they are the recipients of the goods, services or activities represented by the trade mark in question.
Duration	Ten years from the date the registration is published.
Main applicable regulations	Renewable indefinitely before the SPTO for successive periods of ten years, subject to new payment rates. Act 17/2001, of 7 December, on Trade Marks ( <i>Ley 17/2001, de 7 de diciembre, de Marcas</i> ) ( <a href="#">Trade Marks Act</a> ).  Royal decree 687/2002, of 12 July, approving the regulation to execute Act 17/2001, of 7 December, on Trade Marks ( <i>Real Decreto 687/2002, de 12 de julio, por el que se aprueba el Reglamento para la ejecución de la Ley 17/2001, de 7 de diciembre, de Marcas</i> ) ( <a href="#">Trade Marks Regulation</a> ).
<b>Utility models</b>	
Description	Industrially applicable inventions (typically of a less inventive nature than patentable inventions) that give a product a configuration resulting in an appreciable advantage in its use.  There are no defined legal criteria to determine the inventive nature to distinguish a utility model from a patentable invention. As the SPTO points out, although the conditions are similar to those required for patentable inventions, they are arguably less stringent for utility models, and are therefore used to protect inventions of lower inventive rank than patents. In practice, utility model protection is used for minor innovations that may not meet the patentability criteria.
Legal requirements	Novelty.  Inventive step.  Advantage in use or manufacture.
Registrability	Registration required before the SPTO.
Duration	Ten years from the date the application is submitted.  Non-renewable.
Main applicable regulations	<a href="#">Patents Act</a> (in force for applications after 1 April 2017).  Act 11/1986, of 20 March, on Patents ( <i>Ley 11/1986, de 20 de marzo, de Patentes</i> ) (currently not in force, only applicable for applications before 1 April 2017).  <a href="#">Patents Regulation</a> .
<b>Industrial designs</b>	
Description	Aesthetic or form creations (external appearance) suitable for application in the manufacture of products.
Legal requirements	Novelty.

	Uniqueness.
Registrability	There are two types of designs: registered and unregistered.
Duration	<p><b>Registered designs (before the SPTO):</b> five years from the date the application is submitted, renewable for successive periods of five years up to a maximum of 25 years. From the publication of the registered design, the protection is complete and entitles the holder to prevent any act of exploitation of the design, such as the manufacture, offering, marketing, import, export or use or stocking for these purposes, of the product incorporating a design within the scope of protection of the registered design, even if that design was created independently.</p> <p><b>Unregistered designs:</b> three years from the date they are first made available to the public. The protection is weaker as it protects the holder against identical copies of the unregistered design. They are regulated under EU Regulation 6/2002 of December 12, 2001, on Community designs.</p>
Main applicable regulations	<p>Act 20/2003, of 7 July, on Industrial Design Protection (Ley 20/2003, de 7 de julio, de Protección Jurídica del Diseño Industrial) (<i>Industrial Design Protection Act</i>)</p> <p>Royal decree 1937/2004, of 27 September, approving the regulation to execute Act 20/2003, of 7 July, on industrial design protection (Real Decreto 1937/2004, de 27 de septiembre, por el que se aprueba el Reglamento de ejecución de la Ley 20/2003, de 7 de julio, de protección jurídica del diseño industrial) (<i>Industrial Design Protection Regulation</i>).</p>
<b>Trade secrets</b>	
Description	Any information or knowledge, including of a technological, scientific, industrial, commercial, organisational, or financial nature.
Legal requirements	<p>Must be secret.</p> <p>Must have business value because it is secret.</p> <p>Reasonable steps to keep it secret must have been adopted (for example, adoption of specific protocols to protect confidentiality, including confidentiality agreements, security policies, access controls, or return of confidential information at the end of an employment relationship).</p>
Registrability	Not required.
Duration	For as long as it remains secret.
Main applicable regulations	<p>Act 1/2019, of 20 February, on Trade Secrets (Ley 1/2019, de 20 de febrero, de Secretos Empresariales) (<i>Trade Secrets Act</i>).</p> <p>Act 3/1991, of 10 January, on Unfair Competition (Ley 3/1991, de 10 de enero, de Competencia Desleal) (<i>Unfair Competition Act</i>).</p>
<b>Domain names</b>	

Description	Internet addresses that allow an entity's information, products or services to be accessible worldwide online.
Legal requirements	N/A
Registrability	Registration required with domain name registrars (for example, ICANN through an authorised registrar, ES NIC and so on depending on the regional scope of the domain).
Duration	<p>The standard duration is one year, renewable indefinitely for successive periods of one year. However, duration varies across different domain names.</p> <p>Each country has an authority that registers the domain names under its jurisdiction (ES refers to Spain (España)). The renewal process depends on the registrar's conditions.</p> <p>For ".es" domains the duration ranges from one to ten years in accordance with the provisions of the ES NIC (Spanish Network Information Center) entity and according to the fee paid by the domain name holder. An NIC is the authority that grants domain names.</p>
Main applicable regulations	Order ITC/1542/2005, May 19, 2005, approving the National Plan for Internet domain names under the country code corresponding to Spain (".es") ( <i>Orden ITC/1542/2005, de 19 de mayo, que aprueba el Plan Nacional de nombres de dominio de Internet bajo el código de país correspondiente a España (".es")</i> ).

## Intellectual Property Rights

<b>Copyright</b>	
Description	Literary, artistic and scientific works (including databases and software programs, without prejudice to protection by other means).
Legal requirements	<p>Originality.</p> <p>Expression in any tangible or intangible form, known at present or that may be invented in the future (<i>Article 10, Spanish Intellectual Property Act</i>).</p>
Registrability	<p>Registration not required. There is a public and official register for the registration of intellectual property rights relating to works, performances or productions protected by the <i>Intellectual Property Act</i>. However, registration in this Intellectual Property Register is optional and only constitutes a qualified proof for the protection of copyright.</p> <p>Copyright accrues automatically to the author of the copyright work on its creation.</p>
Duration	<b>Economic rights</b> (meaning any monetary rights derived from the exploitation of the copyright work): author's life and 70 years after their death. These rights cover the reproduction, distribution, communication to the public and transformation of the copyright work.

	<p><b>Moral rights</b> (meaning the rights that accrue automatically to the author of the copyrighted work on its creation, none of which can be waived, licensed or assigned):</p> <ul style="list-style-type: none"> <li>• Paternity and integrity rights (respectively, the right of the author to claim authorship of the work and to demand respect for the integrity of the work and the right to object to any distortion, modification or alteration of it) are indefinite.</li> <li>• The right of disclosure (the right of the author to decide whether their work is to be made available to the public, and if so in what form; and the right to determine whether such communication should be effected under their name, under a pseudonym or sign or anonymously) lasts for the author's life plus 70 years after their death.</li> <li>• The right to alter the work (respecting third parties' rights and the protection of goods of cultural interest); the right to withdraw the work from circulation due to changes in the author's intellectual or ethical convictions (paying damages to the holders of the exploitation rights where applicable); and the right of access to the sole or a rare copy of the work (when it is in another person's possession, for the purpose of the exercise of the right of communication or any other applicable right). These rights endure for the life of the author.</li> </ul>
Main applicable regulations	Royal legislative decree 1/1996, of 12 April, approving the restated text of the intellectual property act, regularising, clarifying and harmonising the legal provisions in force ( <i>Real Decreto Legislativo 1/1996, de 12 de abril, por el que se aprueba el texto refundido de la Ley de Propiedad Intelectual, regularizando, aclarando y armonizando las disposiciones legales vigentes sobre la materia</i> ) ( <a href="#">Intellectual Property Act</a> ).

## Due Diligence Process

The starting point for any economic transaction should be a due diligence procedure. From a legal perspective, and in particular from the perspective of IPRs, this process consists of reviewing the intangible assets both owned or applied for and used or licensed by the target company in the normal course of its business. The purpose pursued is to detect any potential risk or loss. In general, it is the seller's obligation to provide an exhaustive list of the IPRs.

For further information on the due diligence process of an acquisition transaction in Spain, see [Practice Note, Due Diligence on Private Acquisitions in Spain](#).

For registered IPRs, the information available in the respective public databases should be checked to verify that IPRs owned by the target company:

- Have been duly registered under its name for all the territories in which they are used or exploited.
- Have not expired, and the renewal fees have been paid.
- Are not subject to registered licences with third parties.
- Are not subject to registered liens, encumbrances or litigation.

For IPRs registered in Spain, the following public databases (at least) should be checked:

- The *SPTO register* for patents, trade marks, utility models and industrial designs.
- The *electronic office "Red.es"* for Spanish domain names ".es."

For other IPRs with effect in Spain (EU trade marks and designs), the databases of the European Union Intellectual Property Office should be checked.

## **IPRs Owned by the Target Company**

Works and inventions created or developed within companies are of particular relevance, and they must be assigned to the target company. The default rules regarding their ownership vary depending on the following two criteria:

- The nature of the contractual relationship with the developer or inventor (for instance, employees, managers or contractors).
- The nature of IPRs created (for instance, works subject to intellectual property rights or inventions subject to industrial property rights).

## **IPRs Created by Employees**

### **Works Subject to Intellectual Property Rights**

If there is no specific written intellectual property rights assignment between the employer and the employee, then the default position for employees is that the IPRs subsisting in works created within the scope of their employment are automatically assigned to the employer on an exclusive basis to the extent necessary for the purposes of the employer's customary activity as at the time the work was created (*article 51, Intellectual Property Act*).

This default presumption only applies to economic rights. In Spain, moral rights are non-transferable and non-waivable by law. This means that any moral rights subsisting in the IPRs assigned to the employer automatically accrue to the employee and remain with the employee irrespective of any agreement to the contrary between the parties. Any purported waiver or transfer of moral rights will not be enforceable in Spain.

The presumption of assignment is broader regarding software development. When employees create a computer program during the course of their employment, the ownership of the software's exploitation rights, both the source code and the object code, belong exclusively to the employer, unless otherwise agreed (*article 97.4, Intellectual Property Act*).

One rule that may be applicable in the case of IPRs created by employees is that of collective works. Collective works are created on the initiative and under the co-ordination of a natural person or legal entity (for instance, the target company). That entity publishes and disseminates the work under its name, but the work consists of the combined contributions of multiple authors (namely, the employees). Each employee's contribution is based on a single, autonomous creation for which it was conceived, without it being possible to attribute separately to any one employee a right in the work as a whole. Unless otherwise agreed, the exploitation rights of a collective work correspond to the natural person or legal entity who publishes and disseminates it under their name (which in most cases is the target company). Software is often a collective work.

### **Inventions**

The default rules for inventions developed by employees vary depending on whether they fall within the explicit or implicit scope of their employment agreement.

Applicable regulations do not provide a specific definition of what is meant by "explicit" or "implicit" scope, which is a source of controversy on many occasions. Nevertheless, in accordance with the majority doctrine, for an invention to fall within the scope of an employee's agreement, it is not necessary for the object of the agreement to be the reaching the invention itself. What is relevant for legal purposes is that the invention is the result of a research activity for which the employee was hired, and from which it could reasonably be expected an invention would derive:

- Inventions that employees develop that fall within the explicit or implicit scope of the employment agreement belong to the employer without limitations, unless otherwise expressly agreed.

The company is the original owner of the inventions, so no explicit or presumed IPR assignment is required. No remuneration is due to the employee except if both the employee's personal contribution to the invention and its importance for the company go obviously beyond the explicit or implicit terms of the employment agreement, analysed on a case-by-case basis. In that case, the employee will have the right to receive an additional remuneration for their achievement. This analysis is undertaken on a case-by-case basis.

- Inventions that employees develop that do not fall within the explicit or implicit scope of the employment agreement belong to the employee.

If the inventions were developed using the company's resources or knowledge, the employer may claim ownership over them, subject to paying a fair economic compensation for them. That compensation is determined based on the invention's industrial and commercial importance, taking into consideration the value of the resources or knowledge provided by the employer and the contribution made by the employee.

In the context of an acquisition transaction, it is advisable to request an exhaustive list of all the IPRs internally developed by employees, who should also be clearly identified. Despite the default IPR assignment to the target company for certain employees' developments, it is advisable that any employees whose activity may involve the creation or development of assets subject to IPRs (for example, software developers or members of the IT team) expressly assign their rights over any IPR to the target.

### **IPRs Created by Non-Employees, Including Founders, Officers, Directors and Contractors**

#### **Works Subject to Intellectual Property Rights**

Ownership over IPRs developed by non-employees (such as founders, consultants, officers, directors and contractors) follow the general rule that the original owner of the IPRs is their author, meaning that the author has the exclusive right to exploit and freely dispose of their works without limitations, unless otherwise agreed.

However, regarding works specifically created for a company under a contractor or consultant agreement, if no express assignment provision has been included in the agreement, the following default rules apply in terms of transfer of rights to the contracting company (*article 43, Intellectual Property Act*):

- The transfer will be limited to a five-year period.
- The transfer will be limited to the country in which the transfer is made.
- The form and scope of use that the company can make of the IPRs will be limited to the purposes for which the contractor or consultant agreement was entered into.

### **Inventions**

Unless otherwise agreed, inventions developed by contractors that fall within the explicit or implicit scope of the contractor agreement belong to the contracting company, without limitations. The contracting company is the original owner of the inventions, so no explicit or presumed IPR assignment is required. Aside from the contract price agreed between the parties at the outset, no additional remuneration is due to the contractor except if both the contractor's personal contribution to the invention and its importance for the contracting company go obviously beyond the explicit or implicit terms of the contractor agreement. In that case, the contractor will have the right to receive an additional remuneration for their achievement (*Article 15, Patents Act*).

In the context of an acquisition transaction, it is highly advisable that any third party hired by the company that may create or develop any work or invention executes an appropriate assignment transferring any IPRs that may subsist in that work or invention to the company.

### **IPRs in Co-Ownership with Third Parties**

#### **IPRs Developed Jointly with Universities and Public Research Institutions**

The regulations applicable in Spain (among others, Sustainable Economy Act 2/2011, of 4 March; Science, Technology and Innovation Act 14/2011, of 1 June; and Organic Act 6/2001, of 21 December 2001, on Universities) have been designed to promote scientific and technical research and the transfer of results from research centres to the private sector.

Under the above regulations, collaboration between universities and the private sector may be articulated through any instrument permitted by the legal system and, in particular, may adopt the following modalities:

- The constitution of innovative technology-based companies.
- The generation of innovation poles to encourage co-operative innovation, through the concurrence in the same physical space of university centres and companies.
- The start-up and promotion of programmes for the valorisation and transfer of knowledge.
- The formation of research and knowledge transfer consortia.
- The creation of company chairs based on collaboration in research projects that enable university students to participate and reconcile their research activity with the improvement of their training.

Therefore, it is common for companies to enter into agreements with universities and research centres to develop and exploit IPRs. The terms under which those agreements have been entered should always be reviewed carefully.

These collaborations usually result in co-ownership of IPRs, which the company may exploit by paying royalties to universities or research centres. Therefore, it is important to consider:

- Ownership of the IPRs: in particular, which party is to own the jointly developed works and inventions, and associated IPRs?
- Exploitation of the IPRs: in particular, when and how will each party be entitled to use, exploit, distribute and develop the IPRs?

The corresponding universities' statutes and regulations should also be reviewed, because they establish the procedures for authorising the works and concluding the aforementioned agreements, and the criteria for determining the destination of the goods and the resources obtained from them. Confirming that these statutes and regulations do not include any obligations that contradict the terms of the agreement that the parties have entered into is important.

### **Consortium Agreements**

For the same purpose of developing IPRs of all kinds, companies often enter into consortium agreements with other public or private entities. These agreements regulate the rights and obligations applicable to the parties during their temporary association to carry out a specific project (for instance, to develop and operate certain IPRs).

Consortium agreements are often entered into with other companies and public entities for the purpose of applying for state or European aids (see *Charges*). In those cases, the terms of the consortium agreement are limited by the provisions of the aid programme under which they fall.

It is necessary to verify that any consortium agreements entered into by the target company include the following clauses on IPRs:

- Ownership of the generated IPRs (foreground IPRs) and access rights granted to the parties with respect to background IPRs of the parties.
- A registration protocol detailing how any registrable IPRs will be registered, and how the responsibility and any associated costs will be shared between them.
- IPRs' exploitation strategy and enforcement of the IPRs.
- Management of the IPRs in case the agreement is terminated, any of the parties withdraw from it, or any new parties enter into it.

### **Charges**

#### **Subsidised IPRs**

It is common for autonomous, national, European Union or international administrations or public or private entities to provide aid or revenue programmes to finance the development and protection of IPRs. In most cases, these grants are part of broader programmes for the promotion of a specific economic sector or aid for the internationalisation of companies based in a specific region. They can take the form of:

- Loans, which are repayable.
- Grants.
- Mixed scheme (part loan, part grant).

The terms governing the grant of subsidies vary depending on the funding to be provided or the aim pursued. However, the following requirements and obligations should be considered:

- Requirement of real and effective exploitation of IPRs.
- Permanence requirement of IPRs in the territory of a particular region, Spain or the European Union for a certain period.
- Obligation to keep workplaces within the specific applicable territory (this requirement is particularly relevant when the transaction consists of an asset purchase and assets are transferred to a company that is based in a different territory).
- Obligation to license the right to use the IPRs in favour of the granting entity.
- Limitation of the objective scope of the exploitation of the IPRs.
- Non-cumulative nature of the aid.

For cases where IPRs have been developed on the basis of a subsidy, it is advisable to ask for all the specifications and terms applicable to the grant, as well as to verify whether there are any limitations to their exploitation to the detriment of the buyer's objectives.

### **Chattel Mortgages (Hipoteca Mobiliaria)**

IPRs may be subject to chattel mortgages. That is, they may be used as collateral to secure compliance of an obligation. If any IPR is encumbered then there is a risk that, due to a default from the IPR's owner, the creditor of the obligation may enforce the encumbrance and seize the IPR.

This is a formal right *in rem*, and to be validly established, it must be recorded in a public deed and registered with the register of movable property (*registro de bienes muebles*).

Therefore, to ensure that IPRs are free of chattel mortgages, it is advisable to check the corresponding entries in the register of movable property where public information is available in exchange for a fee.

## **IPRs Used by the Target Company Under Licence**

### **Main Terms**

For IPRs that are not owned by the target company but that are used or exploited by it either for internal or commercial purposes, it should be confirmed that the corresponding licence agreements have been entered into, have been respected, remain in force, and that no amounts due from the company to the licensor under the licence agreement are outstanding. Specifically, the following clauses should be reviewed:

- Object (for intellectual property rights, the licensed forms of exploitation must be clearly set out, and for industrial property rights, it must be specified whether the licence covers all or part of the rights).
- Term. If the licence is important to the ongoing operation of the target company then the buyer will want to ensure it is not due to terminate in the near future or that, if it is, it can be renewed in advance of the purchase being made.
- Territorial scope. The buyer will want to ensure that the scope of the licence includes the particular territories within which the target company needs to use it.
- Exclusive or non-exclusive nature of the licence. The buyer might want to know that only the target company has the right to use the particular IPRs under the terms of the licence; or if the licence is non-exclusive, the buyer might want to make enquiries as to how many other licensees are entitled to use the same IPRs, and the scope and terms of that use.
- Right to assign IPRs to third parties. The buyer will want to confirm whether there is the possibility to assign the acquired IPRs or the licensor does not permit it.
- Right to sub-license IPRs to third parties. To avoid further non-compliance by improperly contracting sub-licensees, the buyer should confirm this point.
- Obligations regarding the maintenance of IPRs. The maintenance of some IPRs requires proactive work on the part of the IPR holder (for example, registration, renewal and extension of IPRs in the relevant registers), and the buyer should be aware of whether such obligations apply under the outstanding licences.
- Non-compete clauses. This clause may be of particular interest to the buyer if it manufactures, markets or distributes products or services that include or consist of IPRs similar to those licensed.
- Termination, with particular attention to changes of control clauses in share purchases transactions and to assignment clauses in asset purchases transactions.

In the absence of those clauses, the following default rules apply.

	<b>Intellectual property rights</b>	<b>Industrial property rights</b>
<b>Object</b>	Limited to the form of exploitation that necessarily follows from the agreement and is indispensable to fulfil its purpose.	All the scope of the licensed IPRs.
<b>Term</b>	Five years.	Entire duration of the licensed IPRs.
<b>Territory</b>	Country where the licence takes place (typically, but not necessarily, where the licensee is located).	Territory where the IPR is registered.
<b>Nature</b>	Non-exclusive.	Non-exclusive.
<b>Right to sub-license</b>	No.	No.

Regarding the registered IPRs, such as patents, designs or trade marks, no formal requirements are compulsory for their licence under Spanish law. However, registration of any licence in relation to their use is necessary for that licence to be effective against bona fide third parties.

### **Third-Party Software**

Particular attention should be paid to the review of licensing contracts for the use of third-party software. Third-party software includes software programs used under copyright licences, which "warn" the general public of the reservation of rights in favour of their owner, and require the owner's authorisation for any use or exploitation of those rights.

The key features to analyse in respect of third-party software are the following:

- All the software and computer programs used by the target company should be listed.
- Executed licence agreements should be provided to determine whether the target company is entitled to use or otherwise exploit such third-party software or computer programs.
- The number of permitted users and the number of actual users should be identified.
- For corporate groups, confirmation should be provided as to whether the corresponding intercompany licence agreement authorising the use of third-party software and computer programs has been entered into.

The lack of confirmation on the above will be considered a more or less severe issue depending on the type of software licensed:

- For third-party software that is offered as standard solutions on the market and used for internal purposes (non-commercial), the materiality threshold might be lower.
- For third-party software that may be substantial for conducting the target company's business (commercial purposes), the non-renewal, non-existence of agreements or licences or their insufficient scope may constitute an infringement of the intellectual property rights of the program's owners and could give rise to potential liabilities for the infringing user.

### **Open-Source Software**

Open-source software typically authorises users to exploit the program, study how it works, distribute copies and, in some cases, improve the program and make the improvements public, as well as to reproduce, distribute, transform and publicly communicate the program.

The limitations on the use of open-source software programs vary depending on the specific licences and the terms and conditions governing their use. Some open-source software programs have a low commercial risk (for example, Apache, BSD or MIT licences) because their terms:

- Do not affect the ownership of the proprietary software.
- Do not limit or bound the normal commercialisation or exploitation of the proprietary software.
- Do not obligate to place the proprietary software in the public domain.

Others include copyleft-like clauses that permit further distributions (including derivative works of developments or improvements), provided they are made under the same licence or conditions, including the embedding, in whole or in part, of the software in a commercial software or any improvements or developments done to the software (such as GPL licences, with various degrees).

Therefore, it is necessary to determine whether the target company uses open-source software and if so, in what way it is used (for example, if it is used as a mere tool, or embedded, linked, incorporated, or otherwise used to develop proprietary software). This verification is particularly important if the target company commercialises programs that have been developed by using open-source programs governed by licences including copyleft clauses.

If the target company's main asset is a proprietary software and confirmation has been provided on the use of open-source programs for its development, it is advisable to carry out a technical audit to confirm that the use of open-source software does not affect how the target company exploits or distributes its proprietary software.

## Exploitation of IPRs by the Target Company

Regarding the use and exploitation of IPRs by the target company, it is necessary to verify:

- That the target company does not infringe third parties' IPRs.
- That, when the target company licenses its IPRs for use by third parties, it does so on either a sole or non-exclusive basis so that the target company itself can continue to exploit them.
- When the target company is part of a group of companies, which specific companies have the right to exploit IPRs.

To confirm due compliance with the use and exploitation of IPRs by the target company, the following aspects should be verified:

- For the use of a third party's IPRs, that the required licence agreements have been executed and that they remain in full force and will not expire in the near future.
- For the use of IPRs owned by the target company that have been licensed to third parties, under what regime this licensing has taken place. It may have been made on any of the following bases:
  - on an exclusive basis (which must be expressly agreed), meaning that only the licensee may exploit the licensed rights. Therefore, the target company may not exploit the IPRs or license them to other third parties;
  - on a sole basis (which must be expressly agreed), meaning that the IPRs may be exploited by both the licensee and the target company. However, the target company may not license the IPRs to other third parties; or
  - on a non-exclusive basis (which is applicable by default), meaning that the IPRs may be exploited by both the licensee and the target company. Also, in this case, the target company may license the already licensed IPRs to any other third parties.

This distinction is essential because, the target company does not have the right to exploit the licensed IPRs to third parties, it cannot include them in the products it commercialises or distributes because it would be infringing the licensees' rights.

The same verification must be where the target company carries out developments for third parties. In this case, it will be necessary to check to whom the ownership of these developments corresponds, in view of what regime has been used for their assignment or licensing and what has been expressly agreed by the parties. Specifically, developments carried out on behalf of clients whose ownership corresponds to clients (which is the most frequent case) may not be included in the own developments of the target company, as it would constitute an infringement of the client's rights. This consideration is particularly important if the target company develops software programs.

- If the target company is part of a group of companies, it must be determined whether the IPRs of the target company are used by other entities of the group, or vice versa. Specifically, it is necessary to determine

whether the corresponding intra-group licensing agreements have been executed and whether royalties are paid at arm's length.

## Transfer of IPRs: Coverage of Current and Potential Contingencies

### Transfer of IPRs

#### Owned IPRs

In share sales, the IPRs owned by the target company do not undergo any change, which means a separate or specific transfer of the owned IPRs is not required. However, the following scenarios may occur:

- Part of the IPRs subject to acquisition belong to another entity within the target company's group where that entity is outside of the scope of the share acquisition, in which case those IPRs must be transferred from that entity to the target company before closing.
- Part of the IPRs needed or used by the target company for its functioning belong to another entity of the target company's group where that entity is outside the scope of the share purchase, in which case the necessary licensing and transitional service agreements must be entered into.

In asset sales, all IPRs owned by the target company that the purchaser wants to acquire must be identified and assigned to the purchaser and, if applicable, the registrant's details for those IPRs must be updated at the corresponding offices (see *Post-Completion Obligations*). Also, if the transaction consists of acquiring part of a business unit and IPRs outside of the transaction are necessary for the operation of the target company, those IPRs must be identified and the relevant licensing and transitional service agreements must be duly executed. Finally, if the IPRs are co-owned by a third party, that third party has a right of first refusal and withdrawal that must be dealt with before closing (*article 80, Patents Act; article 46, Trade marks Act; article 58, Industrial Design Protection Act; article 1522, Royal decree of 24 July 1889 approving the Civil Code (Real Decreto de 24 de julio de 1889 por el que se publica el Código Civil) (Civil Code)*).

#### Licensed IPRs

As in the case of the owned IPRs, in share purchases, a separate or specific transfer of the licensed IPRs used by the target company is not required (unless these include a change of control clause).

In asset purchases, licensed IPRs to be acquired must be exhaustively identified in the purchase agreement. In most cases, the consent of third-party signatories will be required for the transfer of the licence agreements governing the licensed IPRs. Also, if these licence agreements have been registered with the corresponding IP offices, the identity of the licensee must be modified to that of the acquiring company.

### Representations and Warranties

Some of the most common representations and warranties regarding IPRs are the following:

- **Identification and sufficiency of IPRs.** The seller must represent that the company has, either through ownership (Owned IPRs) or under a licence (Licensed IPRs), all the IPRs necessary for the

operation of its activity. It is advisable to include an exhaustive list of all Owned and Licensed IPRs in a schedule, distinguishing between registered and unregistered Owned and Licensed IPRs, and setting out all registration details where applicable.

The aim of this warranty is to also determine that no action is necessary to allow the target company to use and exploit the Owned and Licensed IPRs under the terms they have been doing so up to the signing of the purchase agreement, and to continue to do so after its execution.

- **Validity, enforceability and lack of encumbrances of Owned IPRs.** The seller must represent that:
  - it has adopted all required measures to register Owned IPRs under the target company's name in the territories where it operates and to renew them when applicable; and
  - the target company's Owned IPRs are valid, subsisting and enforceable and are not subject to any claim, including claims for revocation, invalidity or cancellation.
  
- **Assignment of IPRs developed by both employees and third parties.** The seller must represent that any developments that are part of the Owned IPRs and have been developed by either employees or third parties:
  - have been duly assigned to the target company; and
  - that the target company has paid in full any remunerations required in this regard and neither the purchase agreement nor the transactions contemplated under it imply the need to pay any additional remuneration.
  
- **Compliance with all terms of the IPR licences executed as licensee.** If the target company uses Licensed IPRs, the seller must represent that the licensing agreements are in force and are fully effective and that they have been duly registered as applicable. Also, the seller must represent that the execution of the purchase agreement will not affect the validity or effect of those agreements.
  
- **Open-source software programs.** If applicable, the seller must represent that open-source software that is used in any way to develop the target company's proprietary software:
  - does not affect in any way the ownership of the target company's proprietary software;
  - does not limit the normal commercialisation or exploitation of the target company's proprietary software; and
  - does not oblige the target company to place its proprietary software in the public domain.
  
- **Maintenance of trade secrets and confidentiality.** This warranty aims to ensure that the target company has adopted all the necessary and sufficient measures to keep the trade secrets and know-how secret and has not granted any rights to third parties in or to any of them. It must also be clearly stated that no person with access to confidential information (including both employees and non-employees) has disclosed it except for the purposes for which it was provided and on the basis that such disclosure is to be treated as confidential.
  
- **Lack of rights over the target company's Owned IPRs by institutions, universities or public entities.** The purpose of this representation is to ensure that no institution (including and not limited to any government, university, college, other educational, research or non-profit centre) has provided any support

for the creation or development of the target company's Owned IPRs, or if they have, none of them has any rights, title or interest relating to those Owned IPRs.

- **No IPR infringements.** This warranty should cover:
  - that the target company has not infringed IPRs of third parties; and
  - that none of its IPRs have been infringed by third parties.

For more information on warranty and indemnity protection in acquisitions, see [Practice Note, Warranties and Indemnities: Acquisitions \(Spain\)](#).

## Post-Completion Obligations

### On Closing

The actions to be taken on closing depend on the nature of the particular transaction.

Regarding share purchases, unless specific preclosing conditions have been determined, no further actions will be required because the target company will remain the IPRs holder.

In asset purchases, the assignment of IPRs must be duly recorded before the corresponding official offices (SPTO or domain name registrars), meaning that the registrant's details must be updated to include the identity of the acquiring company. To this regard, the seller must undertake to sign any documents required and take all necessary actions to register the change of ownership. In most cases, that paperwork is signed on closing.

Some IPRs may be shared by the seller and the buyer after the closing. These may be owned by the seller and exploited by both the seller and the buyer under a licence agreement; or assigned to the buyer and licensed back to the seller for their exploitation. However, in both cases, the corresponding licence agreements will be required on closing.

For more information on share acquisition transactions, and signing and closing, see [Practice Notes, Key Documents for Acquiring a Private Company \(Spain\)](#), [Share Purchases: Overview \(Spain\)](#) and [Signing and Closing: Private Acquisitions \(Spain\)](#).

### Transition Services Agreements

When the target company is part of a larger business, or the transaction consists of an asset purchase or a business unit purchase, some of the services that permit its operation usually remain the property of the seller. If that situation occurs, the parties must execute a transition service agreement to regulate the provision of these services to the buyer until it replaces them with others of its own.

This type of agreement is required for the uninterrupted functioning of the target company and is short or long-term, depending on the specific services to be provided. In terms of IPRs, the most frequent items covered under transition services agreements are IT services, although other IPRs may also be included.

### Maintenance and Renewal of IPRs

Once the transaction is completed, the acquirer must arrange for the proper maintenance and renewal of the IPRs as appropriate and according to the timelines described in this Note.

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**END OF DOCUMENT**

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