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All About Allocation of Intellectual Property during Mergers and Acquisitions of Tech Giants

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Transfer of Intellectual Property assets in an M&A transaction is a complex process that requires the input of various specialists within both companies involved in the deal and outside counsel representing both companies. While recognising the critical importance of IP to the success of the company, the parties to the M&A also need to ensure that the transfer process is transparent, legally valid, and does not create any unnecessary risks. This article briefly describes the importance of Intellectual Property in M & A transactions and deal structures. It also sheds light on some of the key considerations of the parties involved in an M&A transaction concerning the transfer of IP assets and potential issues which may arise in such transactions.

Keywords: *intellectual property, m&a transactions, ip.*

INTRODUCTION

Intellectual Property is a type of property intangible in nature that is created out of the person's intellect. Any technological inventions, literary and artistic works, images, logos, names of corporations, symbols, designs, etc. are examples of Intellectual goods. Every company has something which defines their company's name and status in society or we can say that by which the common peoples connect with the company and recognize the companies which are known as the Intellectual Property assets of the company. For example, the logo of Apple Company, once a person looks at the logo of apple on any product they understand that this product belongs to the Apple Company. These logo designs or names of the companies etc. come under the Intellectual property of the company which is protected under Intellectual property laws. There are several provisions enacted to protect and manage these IPs such as the Copyrights Act, of 1957[1], The Trademarks Act, 1999[2], The Designs Act, 2000[3], etc. As technology giants continue to expand and merge, their intellectual property portfolios are becoming increasingly complex, these laws prove to be very essential to protect the rights of these giants. The IP acquired by these firms needs to be properly allocated in the mergers and acquisitions process to protect that IP from misappropriation by the new entity post-closing.

WHAT ARE MERGERS AND ACQUISITIONS

When two or more business entities merge and form a single company or when one company purchases more than 50% of the shares of the other company to acquire another company is the basic definition of Mergers and Acquisitions. We can say that two companies merge or by acquiring form a single entity. For Example, Kraft Heinz Company was formed after H.J. Heinz Co. and Kraft Foods Group Inc. were merged in the year 2015 and formed a leading global food beverage firm. "Vi"[4] is another big example of a merger. The two big entities Vodafone India and Idea were merged in the year 2018 and formed one of the leading companies in telecommunications. Now, while acquiring or merging the companies into one, IP plays a very crucial role as IP is the main source of the company's asset portfolio, therefore, the proper allocation of the IP is one vital step that cannot be missed. Now, let's discuss four types of IPs and their ownership and allocation during mergers and acquisitions.

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[1] Copyright Act 1957
[2] Trademarks Act 1999
[3] Designs Act 2000
[4] 'Merger of Idea Cellular and Vodafone India completed - creating India's largest telecom service provider' (*Aditya Birla Group*, 31 August 2018) <https://www.adityabirla.com/media/media-releases/merger-of-idea-cellular-and-vodafone-india-completed> accessed 25 September 2022

TYPES OF INTELLECTUAL PROPERTY AND THEIR OWNERSHIP DURING MERGERS AND ACQUISITIONS OF TECH GIANTS

Four types of intellectual property can be part of a business acquisition or merger: trademark, copyright, patent and trade secrets. Some businesses are even incorporating other types of intellectual properties[5] as part of their businesses, such as 'trade dress and quasi trademarks".

Trademark - A brand name of the company to identify the products and services of the company. For example, Coca-Cola has an established brand and logo. The Coca-Cola Company owns several trademark registrations including the Coca-Cola word mark, the Coca-Cola script mark, and the Coca-Cola contour bottle mark. There are several other examples available of the same such as Apple's apple logo, Nike's Swoosh Logo, Microsoft's windows logo, McDonald's The Golden Arches logo, etc. As the trademark owners have registered their logos, they can prevent other business entities from using the same for promoting their products.

Copyright - The authorship of the original literary, artistic, or any other intellectual works is protected under the Copyright. When a company acquires another company, the copyrights in the acquired company's existing works are typically transferred to the new owner as a part of the purchase. For example, When Apple acquired Beats Electronics in 2014, it acquired all of the rights to the music in the Beats Music streaming service and all of the rights to create future music for the Beats Music Service.

Patent - Patents protect inventions by granting inventors the right to exclude others from making, using, selling, offering for sale, or importing the invention for a limited period in exchange for public disclosure of the invention when the patent is granted. A Patent only protects an invention when used in a certain manner; therefore, a newly acquired business cannot simply transfer all of its existing patents to the buyer of its company. Instead, the company would have to obtain new patents for the new products that it creates after the merger.

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[5] Prashant Kaushik, 'Role of Intellectual Property in Mergers and Acquisitions' (*Taxguru*, 15 February 2022) <https://taxguru.in/corporate-law/role-intellectual-property-mergers-acquisitions.html> accessed 25 September 2022

Trade Secrets - Trade secrets are confidential information that is essential to run a business. Trade Secrets are as important as any other Trademark, patent, or copyright. One very good example of the Trade Secret is the secret formula of Coca-Cola or the formula of the sauce used in the pizzas of Pizza Hut.

The purpose of every merger or acquisition deal is to maximise the profits of the company and the shareholder. The deals of mergers and acquisitions help companies to expand their reach to capture a bigger audience and help reduce the competition. M&A transactions also help in increasing technological efficiency and manpower as during such transactions there is the transfer of technology and assets as well, which helps the companies to improve the product and services. The process of M&A is very tricky and it is essential to keep certain factors in mind during such transactions.

THINGS TO CONSIDER WHEN ACQUIRING OR MERGING WITH A BUSINESS THAT USES INTELLECTUAL PROPERTY ASSETS AS PART OF THE BUSINESS

Consider all licensing agreements that are in place between the current owner of the business and any third parties before a merger is finalised. These agreements may impact both the costs and revenues of the newly merged entity, so be sure to fully understand the terms of the agreements before signing on the dotted line. It is also important that any potential changes to these agreements be made known and agreed to in advance to avoid any legal disputes that may arise in the future. Another consideration that should be taken into account is whether the current and future owners of the company will own any trademarks. If the trademarks that are used by the company are being transferred to the new owner as a part of the merger agreement, careful consideration must be given to the names chosen to avoid any potential legal issues or confusion in the marketplace. For example, if the new company chooses to use the name "ABC Inc." instead of "ABC Corporation", they may find themselves facing legal actions from a company that previously owned the trademark of that name. It is also important to take into consideration any existing patents held by the company. Again, it is important to ensure that the proposed name does not infringe on any existing patents to avoid a costly legal battle down the line.

Finally, be sure to review all the existing contracts and service agreements currently in place with any third-party companies with whom they are currently doing business. Some of these agreements may be non-negotiable, while others may require renegotiation to adequately reflect the terms of the merger agreement. Any outstanding litigation should also be reviewed to determine if any of the claims filed against the business should be settled before the merger to avoid further complications. However, this is a complex process that varies significantly depending on the industry and the structure of the transaction. When acquiring a company, investors must determine how much of their acquired IP will be transferred to the target company in exchange for assets such as cash or stock and how much of the acquired IP will be retained by the acquirer for its use. For technology companies, this process can be especially challenging because different types of IP assets have different values and protection, and many high-tech companies rely on the protection of their IP to continue operating and growing their businesses. This allocation process also involves significant negotiations due to the requirements of the contracts.

ROLE OF INTELLECTUAL PROPERTY IN MERGERS AND ACQUISITIONS

Intellectual Property, or IP, is often seen as a key asset in mergers and acquisitions (M&A)[6]. Indeed many acquirers and targets rely on their IP as a key strategic element of their business and view access to it during the merger as crucial to maintain competitive advantage. IP allows companies to establish competitive advantages and penetrate new markets, so buyers and sellers alike need to understand how IP will impact their M&A strategy. Intellectual property[7] plays a very vital role in Mergers and acquisitions:

Valuation of IP - Valuation of IP is the process to determine the value of the Intellectual Property assets such as patents, trade secrets, trademarks, and copyrights. It is essential to do the proper due diligence to have the proper value of the IP assets. Once the process of due diligence is done

[6] *Ibid*

[7] 'Role of Intellectual Property in Mergers and Acquisitions' (*Abbasi & Associates*) <https://abbasilegal.com/role-of-intellectual-property-in-mergers-and-acquisition/#:~:text=Another%20major%20role%20of%20Intellectual,asset%20utilised%20to%20the%20best> accessed 25 September 2022

and the report has been formed, both parties then accept the due diligence report and fix the final purchase price and execute the M&A agreement, to officially transfer the IP assets. It is important to transfer the IP assets through a separate agreement to record the proper transfer of rights and valid usage of the IP assets.

Reduces Competition and Increases efficiency - The transfer of IP during the Mergers and Acquisitions deals helps reduce the competition in the companies and the transfer of IP helps improves the quality of products and services as the transfer of IP assets means that the secret formula or a trade secret is being transferred during the transaction, which results in increasing sales in the business.

Technological transfer - During the M&A transactions, the technology also gets transferred to the new owner to make valid use of the technological advancement. For example, "ABC" a company involved in the business of manufacturing a special wide range of cotton and nylon blend fabrics, merges with the brand name "FAB", which is the company involved in the manufacturing of the fabrics as well as the designer clothes out of it. During the M&A transaction, ABC transfers the technology rights to the FAB company. The FAB Company after signing the agreement can use the technology used by ABC to produce the best quality fabrics.

Diversification - M&A transactions help entities to enter the new market and explore new opportunities. It reduces the cost of operations or we can say that it helps the companies to operate the business at a larger level at a convenient cost.

Growth - The main objective of M&A transactions is to increase or maximise the profits of the entities. During the M&A transactions, IP and technologies were being transferred to meet the current demands of the market.

ISSUES RELATED TO IP THAT CAN OCCUR DURING MERGERS AND ACQUISITIONS

When two companies merge, the resulting company is typically responsible for any intellectual property that was owned by either of the companies before the merger. However, IP infringements do occur after the merger, particularly when the merged company is unprepared to handle IP issues. Registering an IP asset is of the utmost importance as it benefits the restaurant and provides protection against infringers. A public record "Chain of titles" tracks ownerships from the owners at the beginning to who owns the title in the presence of the registered IP assets. These records are maintained to protect the IP rights of the Registered IP asset owners. In case the registered IP owner fails to record any of the transactions in regards to the IP such as:

- Transfer of the IP asset to a new owner for an assignment
- A merger of two companies where the assets are being merged and formed a new entity.
- When one company changes into another type of company. For example, if the company is registered into LLP from Inc.
- If there is a change in the name of the entity. For example, ABC Pvt. Ltd. changes its name to CBA Pvt. Ltd.

These changes should be recorded properly in and promptly with the appropriate IP registry to avoid any confusion about the ownership of the IP asset in the future and no gaps will occur in the Chain of Titles. During the M&A transactions, the gaps aroused in the Chain of titles can cause complications. Complications may arise to define who the actual owner of the IP asset is and who has the valid right to use the IP asset. Several steps can be taken to avoid these complications:

- During the transaction, a buyer should carefully review the ownership records during the process of due diligence.
- A buyer should review all the registered IP assets covered by federal, state, or foreign registrations or pending applications if any.
- If the IP assets registered under the relevant jurisdiction or not?
- All the numbers associated with the patents, registration and applications.
- The dates of each event such as the date of applying, the date of registration and the date of issuance of the registration.
- And, at last, the parties should execute a separate agreement transferring the rights and the valid usage of the IP asset. For example, if the company assigns the trademark during

the M&A transaction, then the company should clearly define the transferred asset and valid usage of the same.

CONCLUSION

As we have discussed, Intellectual Property is the very essential asset of the company. It helps companies to stand out in the world of competition. Through these logos or names or designs, the common people can easily identify the products of the leading companies. Therefore, the allocation of it is also the most crucial part of the transaction. The Parties involved in the M&A transactions should take the proper measures to allocate or assign the IP asset properly. The owner should take the appropriate measure to avoid any complications regarding the usage and define the valid usage of the IP asset in the agreement, which might lead to future disputes. In the end, the buyer should ensure that the buyer will receive the IP rights purchased under the purchase agreement of the IP assets. If there was any discrepancy in the Chain of Titles the buyer will not be able to make the proper use of the IP assets.