THE RELEVANCE OF INTELLECTUAL PROPERTY IN MERGERS AND ACQUISITIONS*

Abstract

Intellectual property Rights are very crucial to mergers and acquisitions since they are amongst the most valuable assets that an organization may hold. It is therefore very necessary that parties to mergers and acquisitions consider it very important to seek expert advice in every step of their transactions, more so when difficult issues are confronted in the valuation of intellectual property driven mergers and acquisitions. It cannot be gainsaid that a poorly structured business strategy is a recipe for failure of intellectual property driven mergers and acquaintance. Conversely, a well structured strategy and conduct of due diligence in the process of mergers and acquisitions is fundamental to the success of the deal. This paper using the doctrinal methodology with primary and secondary sources, examined the concept of mergers and acquisition in general, the nature and scope of intellectual property as a right and proceeds ultimately to show the relevance of intellectual property in mergers and acquisitions. It found that in the digital age, Intellectual property has become a meaningful value driver in mergers and acquisitions transactions. It also found that an early assessment and consideration of all IP assets of the target business generally referred to as due diligence is critical. It recommends, inter alia, that due diligence should be conducted early in the process so as to determine the actual worth of the target company's IP portfolio and as well undertake relevant risk assessment which are key to a successful merger and acquisition transaction.

Keywords: Intellectual Property, Mergers and Acquisitions, Trade Marks, Relevance

1. Introduction

Intellectual property Rights (IPRs) are very valuable assets which must be considered alongside other assets and proprietary rights in Mergers and Acquisitions (M&A) transactions. For instance some of the most valuable IPRs include Google and Microsoft Trade marks valued at US $44.3bn and US $44.28bn respectively. Furthermore, with a number of technologies startups being acquired, there is the possibility that they would have a portfolio of patents or copyright that would cover their software and other IP products and these may form the most valuable assets of the target companies[1]. For this reason, the value of IPRs is a very major factor as it helps in the consideration of the value to be paid by the buyer or acquirer in acquisition transactions. The growth in e-commerce and the digital era are the main components that comprise the value that the market attributes to IP today. In fact, European Intellectual Property Office (EUIPO) has carried out studies on the contribution of Intellectual Property rights to the economy and the results showed that IP Industries generate about 45% of the total economic activity in the EU. In recent years mergers and acquisitions have lent themselves as veritable tools for rapid growth in the corporate world. A merger is an agreement wherein the assets of two or more existing companies are merged into one company or they come under the control of one company. Similarly, in an acquisition the assets and liabilities of the target company are acquired and or taken over by the buyer company. An amalgamation on the other hand occurs when two or more companies merge in order to establish a brand new company, and all the liabilities and assets are allocated to it[2]. Merger and Acquisition (M & A) transactions lead a legal entity either to expand or to go down in size; basically by the consolidation of multiple into one company or one company taking the ownership or operating units of the other(s). Either way, both contain pursuing deals and transfer of assets and rights of others which give particular importance to IP issues in M & A transactions. In other words, during such transactions, tangible and intangible assets of one company get inherited by the acquiring company and intellectual property is the most important of these assets. For this reason, making informed, strategic decisions regarding Intellectual Property assets during a merger or acquisition is very important. This helps to avoid potential audits, penalties and even litigation down the road[3]. This article thus evaluates the relevance of Intellectual Property and the need to effectively manage and protect it during mergers and acquisitions.

2. Conceptual Analysis

For proper elucidation of the crux of this paper, it is necessary to define and discuss the key terms.

Intellectual Property

Intellectual property (IP) may be understood in ordinary parlance as property resulting from creativity. It means an idea, a design, a product, etc that someone has created and the law prevents other people from exploiting or copying[4]. It is also defined as a category of non-physical assets that are protected by law from unauthorized use[5].

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[1]Davidson Oturu and Francis Obiago, 'Intellectual Property Considerations in Mergers and Acquisitions' It//www.Monday.com accessed on 15/11/21

[2]Rachit Garg, 'The Role of Intellectual Property in Mergers and Acquisitions'. https:blog.ippleaders.in/nole-intellectual-property-mergers –acquisitions/accessed on 18/11/21

[3] https//www.valentian.com/news and insights/intellectual property –rights-mergers-acquisitions assessed 28/11/21

[4] *Oxford Advanced Learners Dictionary*, Oxford University Press, 10th Edition 2020

[5] Latest news and insight, Valentian Group Op cit

Patents, trademarks, industrial designs, copyrights and licences, trade secrets, software, database rights etc are all examples of legal protection for intellectual property which can be everything from company names and logos to formulas, business concepts and processes[6]. Intellectual Property is something which is created out of human intellect and is therefore incorporeal and intangible in nature i.e. it can neither be seen nor touched. Intellectual Property law awards to inventors and creators certain exclusive rights to produce, copy, distribute and license goods and technologies within a country.[7] It is therefore an exclusive right to the inventor or the creator or assignee to use or authorize the use, sell or dispose of the invention. In Nigeria, there are three main statutes that govern intellectual property and these are:

a) The Copyright Act[8]: This protects the rights of creators in such works as literary works, artistic works, musical works, cinematograph films, sound recording and broadcasts.
b) Trade Marks Act[9]:This regulates trademarks which comprise any mark, sign, symbol, label, device, letter, numeral etc or a combination of such items which is used by manufacturers or marketers to identify their products or differentiate them from other manufacturer's products.
c) Patents and Designs Act[10]: This protects inventions that extend to things like machines, devices, chemical compositions and manufacturing processes which come under patents as well as unique designs of such machines, devices or industrial processes which come under Industrial designs.

It is quite regrettable that despite the evolution and increasing growth in the digital era, Nigerian IP laws are still obsolete and greatly lag behind with regards to protection of works in the digital environment. Apart from computer programmes which are protected as part of literary works, there is no specific protection for such IP products as trade secrets, service marks, softwares, databases and other digital IP products under Nigerian law. Mention must also be made of the existence of some international legal instruments on Intellectual Property Protection many of which Nigeria is a party to such as Universal Copyright Convention (UCC), the Berne Convention for the protection of Literary and Artistic works 1886, the Paris Convention for the protection of Industrial Property 1883, the Patents Cooperation Treaty 1970 which provides for unified procedure for filing patents applications, the African Regional Intellectual Property Organisation (ARIPO) 1976 and the Harare and Bajil protocols established to foster co-operation amongst African states in Patent and other IP matters, the WIPO Copyright Treaty (WCT) and WIPO producers of Phonograms Treaty (WPPT) 1996 both of which, inter alia provide for harmonization and standardization in IP laws of member states[11] as well as the Agreement on Trade related Aspects of Intellectual Property (TRIPS) which was reached under the auspices of the World Trade Organization (WTO) to address IP issues that arise in trade negotiations and agreements between member states.

Merger and Acquisition

Mergers and Acquisitions are key features of corporate history and have evolved prominently globally in recent decades. Mergers and Acquisitions have also become a key growth strategy in the corporate world. The history of merger can be traced back to the 19th century when industrialists used trusts to consolidate separate companies into large conglomerates. This use of corporate trusts to control market power first originated with Standard Oil Trust, a company which through trust arrangement, gained monopoly over the production, distribution and sale of oil products in 1879[12]. These arrangements were motivated mainly for profit maximization purposes. This led to the US Shermar Act in 1890 to control monopoly through merger by trust. This Act was however limited to issues of commerce alone as enunciated in the case of *US vs. Knight*[13]. After this, the first merger phase witnessed a large number of horizontal mergers. Then came the second, third, fourth, fifth and sixth merger waves between the period of *2003 and 2007*. These were characterized by mergers in the metals, oil and gas, utilities, telecoms, banking and health industries[14]. At this point, mergers were no longer seen as monopolistic strategies but as means of globalization. Mergers evolved in Nigeria around 1982 during the fourth global merger wave and the Securities and Exchange Commission (SEC) performed the regulatory function over the mergers and acquisitions[15] Between 1982 and 1988 about 11 successful mergers were recorded in Nigeria and merger activities continued in the sixth global wave with the merging of Agip Nigeria Plc and Unipetrol Plc into Oando Plc in 2002. In 2005 an

[6] Ibid
[6]a Casten Fink & Keith E. Maskus eds. 'Intellectual Property and Development: Lessons from recent Economic Research (A co-publication of the World Bank and Oxford University Press, New York 2005 p. 3)
[8] Cap C28 Laws of the Federation of Nigeria (LFN) 2004
[9] Cap T 23 LFN 2004
[10] Cap P 2. LFN 2004
[11] These International Instruments serve to provide a road map for future policy directions on IP matters across the globe.
[12] E O Nwosu 'Gridlock and Goodluck in Quasi-Corporate Marriages in Nigeria' being the text of the author's inaugural lecture delivered at the University of Nigeria, Nsukka on Thursday, 11 November, 2021 P. 12
[13] (1995) 156 US1
[14] E O Nwosu Op cit
[15] Ibid See also RE: Bendel line Co. Ltd (1979) FHCR 19

unprecedented number of mergers was recorded in the Banking Industry in Nigeria following the Central Bank of Nigeria (CBN) N25 billion minimum share capital policy for banks in Nigeria. The latest merger activity in Nigeria is the Access Bank/Diamond Bank merger in 2019[15a] Mergers and Acquisitions are often used interchangeably though they are not exactly the same. As the words suggest, a merger is usually two or more enterprises coming together to form a bigger entity while acquisition is where one entity or enterprise takes over another entirely. While mergers are usually on friendly basis, acquisitions could be on friendly or hostile basis. The merger of two companies usually helps in enhancing productivity and maximizing profits thus ensuring that the company achieves the desired goals[16]. In acquisition, the measure of the takeover or stake is generally above 50% and this provides the acquiring company or entity the control of management of the target enterprise[17]. Mergers and acquisitions therefore help in maximizing profits, capturing a larger market and reducing undesirable competitions.

3. Relevance of Intellectual Property in Mergers and Acquisitions

Intellectual property (IP) is a unique feature and therefore acts as a finger print of any enterprise of company. Intellectual Property rights, also considered to be the brand values or innovation portfolios, have for decades been one of the drivers behind merger and acquisition activities. A portfolio of intellectual property rights can, if properly managed and maintained, add significant value to a business and make attractive propositions to buyers[18]. A classic example of intellectual property as a driving force behind mergers and acquisitions is the acquisition of the Rowntree business by Nestle in 1988 being the most prominent foreign takeover of a United Kingdom company. Nestle agreed to pay a whopping sum of US $4.5 billion for Rowntree Plc with the main purpose of acquiring brands like Kitkal Rob and Yorkie. Another example is the more recent acquisition of Versace (Italian Fashion house) by Michael Kors in a bid to gain new product lines through established brand and intellectual property portfolio. Thus IP carries innovation, product value and brand value of a company hence it plays an inevitable role in the strategic development of any company or enterprise. As a company could be identified specifically through its stock in trade, IP serves as its endorsing power and forms the main reason why people involved in running businesses over the world are clamoring for such assets through mergers and acquisitions. The underlying factor is that IP gives control and ownership and also strengthens the market perception for the company. The management of IP rights has gained more importance since the global wave in technology and as such it is important to be mindful about IP management in mergers and acquisitions to avoid unnecessary risk and liability. The relevance of IP in mergers and acquisitions can not therefore be over emphasized.Even the smallest part of IP deal is like a treasure-trove because this IP collection increases the value of the deal entries through various blends of business; such as selling the IP assets to maximum value user, donating the patent for tax benefits, spinning it off to start ups in return for equity, abandonment of patents for cost reduction, licensing the IP, giving the IP assets as funds in for Research and Development (R & D), forming or creating IP subsidiary that focuses on licensing of the same, patent platform, pooling off the patents, copyrights etc[19]IP does not only promote and increase value of the owner or acquirer but it also helps the companies to diversify, form a technology transfer base and attain uniqueness in value and resources. For these reasons IP plays a pivotal role in mergers and acquisitions and great care is observed during its transfer in mergers and acquisitions transactions. The process of holding an investigation to determine the financial and legal status as well as economic viability of the target business is popularly known as 'due diligence'. In recent times the practice of holding a separate due diligence dedicated to IP has evolved mainly because of the nature of IP as a unique specie of assets; more so given its intangible nature.

4. IP Due Diligence

Theory of Due Diligence

The theory behind due diligence holds that performing this type of investigation contributes significantly to informed decision making by enhancing the amount and quality of information available to decision makers and by ensuring that this information is systematically used to deliberate on the decision at hand and all its costs, benefits and risks[20].IP involves a number of rights, such as patient rights, copyrights, trademarks, trade secrets, software, database right rights and so on, but not all of them are registered rights which buyer can easily become

15a. Ibid

[16]Nidhi Poddar. 'Role of Intellectual Property in Mergers and Acquisitions' at https://www.enhelion.com/insights/, Intellectual-property-in-merger-acquisitions/accessed on 20/11/21

[17] Ibid

[18]Careth Price; 'Importance of IP in mergers and acquisitions' at https://www.udl.co.uk/insights /the importance-on-in-in-mergers-and -acquisitions on 24/11/21

[19]C.E. Chapman 'conducting Due Diligence', New York Practicing Law Institute, 2006, 24. Yigit Yildiz et al 'Intellectual Property considerations And Issues In M & A Transactions' www.monday.com accessed on 7/3/2022

[20] Ibid

aware of without specific disclosure or due diligence. Copyright belongs to this letter category. Additionally, through IP Due diligence, the buyer gets to know about the status of the information, what they are buying and what they are expected to acquire. On that account, auditing portfolio to assess all of the entries of a company would be necessary to detect the pros and cons given the fact that IP itself is considered as a 'risk allocation issue' by its very nature. Furthermore, during and after the M & A procedures, there are possible and probable disputes that may arise which would lead to exposure problems. In the event of pending litigations, third party claims, licensing agreement obligations, exclusivity existing liens or encumbrances, security measures regarding data protection, cross-border transactions etc may disable the buyer from exercising its power of disposition. M & A transactions that involve IP have a higher risk of exposure to allegations of infringement or potential liability. It is for these reasons that early and specific attention ought to be paid to the IP aspects of a transaction. For example, if all or most of the IP owned by the corporate seller is not assignable as a result of the contracts vesting ownership in the seller, then a stock purchase, in which the assignability of the assets is not important, may be preferable to an asset purchase. In this case, both parties are protected. The seller is not forced to make representations about assignability that are impossible to meet, and the purchaser is not forced to assume the risk of claims of infringement or the inability to enforce IP rights arising from the ineffectual transfer of rights. Another reason for due diligence is to make sure that stated closing conditions are ones that are possible to meet. For example, the closing conditions may include the requirement that third parties consent to transfer of the assets being acquired. If, during the due diligence process, a third party is identified whose consent is required to transfer rights in some important intangible IP asset, and that third party refuses to consent, then this closing 'condition' will need to be reconsidered and an appropriate exception crafted. Some of the key aspects of IP due diligence are discussed hereunder.

Timespan
Experience has shown that During M & A negotiations, IP due diligence is usually brought up either too late in the process to be effective or not at all, whereas essentially it should be conducted early in the process. Strategically, an earlier timed due diligence would help take the right action and also determine IP proactively.

Identification
As earlier noted, the scope of IPRs is quite wide. In that vein, the scope of IP assets interconnect with the nature of the company that is about to become the target. Therefore, in order to undergo a meaningful and goal-oriented IP due diligence, one must first understand the target company and its business. What is to be acquired?– the whole company or only a part of it? the economic goals of the planned acquisition. Is the transaction intended to strengthen the investors' IP portfolio? Providing the rights answers to these questions is an important prerequisite for targeted IP due diligence. Spotting the necessary IPRs that concern the target enterprise, and categorization of these rights, will also make the risk assessment much more qualified[21].

Sufficiency of Assets
Sufficiency of assets means that the purchased assets constitute the necessary amount that the company needs to conduct its business. In order to create the basis for the sufficiency of assets, it is important to understand the IP structure of a company. First there is 'Company IP' which includes IPRs and unregistered IP such as trade secrets, know-how and so on. This is the IP asset class where the company basically sells its own assets. Then there is 'Transferred IP' which is owned by the target and needs to be transferred to the buyer as part of the transaction. Last but not the least, there is 'Retained IP' which is typically license. When these three all come together , they create the basis for the sufficiency of assets which constitute all of the IPRs that the buyer company needs to operate its business.

Due Diligence Checklist

Ownership
The preliminary step in due diligence is to make an inventory of every right that is registered, and to verify the ownership. Since registration confers an exclusive right to use and provides legal certainty, identifying the beneficiary is of great importance. Ownership of the IP generally sticks with that entity or person who developed it, at least this is the most common case. However, the right to use and the freedom to operate may reside in some other person by virtue of an assignment or licence, thus the possibility of the other parties involved having the right to use that IP is always

[21] Ibid

Freedom to Operate
It is also crucial to examine the scope of the registered rights such as patents and whether they cover the products or services that the company is acquiring. Making sure they have the freedom to operate is actually more important than having a registry.

Licensing Agreements or Other IP Agreements
A key issue to investigate during due diligence relates to those agreements that concern IP since it is highly probable for them to have a counter effect on the buyer. Complications often occur in the event of existing licensing agreements. The asset in question may be within the disposition of a third party pursuant to that agreement. The obligations rising out of these agreements may also limit the buyer's exploitation of those particular IPRs. It is therefore of tremendous importance to ascertain whether IP licences are assignable since there may be third party consents required in order to transfer target businesses' licenses. If the licensor's consent is needed for license rights to continue post-closing, the relationship between the licensor and licensee will be required because obtaining consent may pose challenges. Therefore, provisions or non-assignment clause are highly relevant and important to check regarding the type of M & A. However, it should be noted that IP terms and licenses may be subject to agreements which are not always identified as 'license agreement'. These may be subject to IP assignment agreements, cross licenses, transition service agreements and more of the like. Considerations on whether there are any license obligations or protective and restrictive provisions are also a requisite because it is highly likely to have a counter-effect on the buyer, following the closing.

Intangible Assets as Collateral
Intangible assets are more difficult to insure when compared to tangible assets. The tendency to seize IP as collateral has become more frequent. 'Business transfers also fall into the category of intangible based financing'. It is often conducted through liens and encumbrances. Any existing lien and encumbrance on IP need to be disclosed by the target to potential buyers. Ascertaining the existing collaterals is generally possible through diligent investigation, since target businesses may not always reveal data in good will, in practice. Therefore, investigating and addressing the beneficiaries of the IP and also the existing liens and encumbrances during IP due diligence will be precisely decisive for the buyers' judgment.

International Transactions
When an M & A transaction is cross-border, approaches and interpretations to legal regulations have to become multilateral as well. It is important to address what kind of products and services the target provides and in which jurisdictions. It should be noted that especially IP differs significantly between different systems. For instance, in some countries IP licenses have to be registered in order to be obligatory for third parties who obtained the license, but some other countries do not require licenses to be registered at all. Another point to note is the protection mechanisms. Some countries provide protection even to applications for registrations while some do not. Therefore, a scrutinized investigation is necessary to eliminate future disputes particularly when the transaction involves a foreign element.

Verification of Validity
Risk assessment is key for protection from present and prospective disputes and to eliminate the risk of infringement claims. However, pre-transaction or post-transaction, there are key matters that need to be controlled periodically. Especially with the registered rights and in order to maintain the acquired rights, it is necessary to make sure that the necessary maintenance fee payments have been paid and the renewal filings have been made. Post –transaction, the buyer must ensure that records have been verified, updated renewal process is concluded, fees have been paid and prescribed time for related operations has been and is being-complied with.

Risk Management on the Payment
In light of these important issues, a risk management at the payment point should also be undertaken. When there is a particular issue regarding a company's intellectual property, it is necessary for the buyer to insist upon a certain amount of escrow to be set aside for that particular claim. How much is the right amount of fund to set aside, length of the period when the escrow will be released, the procedure for release of escrow and basically how claims are made should consist the backbone during negotiations on escrow regarding IP assets of a company[22].

Scope of Idemnification by Seller on IP Issues
It is necessary at the due diligence stage for the acquirer to demand that the seller or its stockholders indemnify the acquirer for breaches of IP-related representations, all known claims (including pending litigation) and,

[22] Ibid

frequently, future claims related to the seller's IP. Negotiating the terms, conditions and limitations of these indemnification provisions is one of the most important negotiations in an M & A deal, especially where the seller's real value is in its IP. Of course, in an acquisition the acquirer expects to be indemnified for a broad range of matters in addition to IP matters. Accordingly, in order to effectively optimize a negotiation of the IP-related indemnification, the seller and its legal advisors need to develop priorities and a negotiating strategy whereby tradeoffs in the negotiation lead to an acceptable outcome with respect to IP indemnification terms. It is especially important for a seller to take advantage of the leverage it has when negotiating a term sheet or letter of intent to address IP and other indemnification points. The most important indemnification points are:
Scope and Survival of Indemnification: The selling company should seek to limit indemnification to breaches of IP representations and have the indemnification obligation end when the survival period for general representation ends. Frequently, the acquirer will seek longer survival period for IP chains.
Caps on Exposure: The seller should seek a cap on its (or the selling stockholders) indemnification obligation. Ideally, the cap would be the same as that for breaches of general representations (usually 5 percent to 15 percent of the purchase price), although it is common for the acquirer to request that IP indemnification claims be subject to a higher cap (for example, 25 percent or 50 percent of the purchase price).
Matters not Limited by the Cap: The acquirer may sometimes insist upon a variety of indemnifiable matters not being limited by a cap, such as claims of fraud, intentional breach of representations, or breach of covenants. Sellers almost always oppose these exceptions on the ground that if the selling stockholders did not agree to the sale of the company, the selling stockholders' exposure would always be limited to their investment and nothing more. From the perspective of the seller and its stockholders, the 'cap' always has to be the purchase price – otherwise, why would the selling stockholders take the risk of having to return to the acquirer more than that amount?
Threshold and Deductibles: In almost every deal, an acquirer usually agrees that it will not have recourse against the seller or selling stockholders unless and until its claims exceed (in total) an agreed upon threshold amount (e.g. 10 percent of the purchase price_. Sometimes this amount is a 'tipping basket' (once the amount is exceeded, the acquirer is entitled to be indemnified for all damages, and sometimes it is a 'true deductible' (the indemnity is limited to amounts over the threshold).
Control of the Defence of Claims: Although acquirers usually are adamant that they should control the defence of any third party IP claim, dispute, or lawsuit, the seller should not shy away from resisting this position. The acquirer is effectively spending the selling stockholders' money and may not be as motivated as the selling stockholders to conduct the defence as efficiently as possible, and may be motivated to settle claims for amounts beyond their true value out of the escrowed funds.

For a smooth and seamless due diligence to take place it has been suggested that the seller needs to have prepared for the acquirer's review an extensive list of all the IP (and related documentation) that is material to the seller's business, including[23]:

a. Patent and patent applications (including patent numbers, jurisdictions covered, filing, registration and issue dates)
b. Confidentiality and Invention Assignment Agreements with employees and consultants.
c. Trademarks and service marks
d. Key trade secrets and proprietary know-how
e. Technology licenses from third parties to the selling company
f. Technology licenses from the selling company to third parties
g. Software and databases.
h. Contracts providing for indemnification of third parties for IP matters
i. Open source software used in (or used to create) the seller's products and services
j. Claims for infringement of IP, including any IP litigation or arbitration
k. Domain names
l. Liens or encumbrances on the IP
m. Source code or object code escrows
n. Social media accounts (Twitter, Facebook, LinkedIn, etc)

A variety of these items will typically need to be included in the disclosure schedule that accompanies the acquisition agreement. To facilitate an acquirer's due diligence, the seller will usually have all of these documents (perhaps other than trade secrets) housed in a virtual data room. Assembling these documents and setting up and maintaining the data room is a time-consuming task for the seller to undertake, and therefore it is critical that the company undertake this as early as possible in the sale process. This helps the seller in the proper valuation of the IPRs.

[23] Ibid

Key Disclosure Schedule on Issues Concerning IP

A disclosure schedule is the document accompanying the acquisition agreement setting forth the required disclosures of the seller concerning outstanding contracts, IP, employee information, pending litigation and much more. A well-prepared disclosure schedule is critical to ensuring that the seller does not breach its representations and warranties in the acquisition agreement, since the disclosure schedule 'qualifies' such representations and warranties. Accordingly, this is an extremely important document to have ready early in the sales process, and it is very time consuming to get complete and accurate. Very commonly, the selling company underestimates the effort to get this right, requiring multiple drafts that potentially delay a deal. The primary mistake often made by sellers is an inadequate review of all the IP representations and warranties in the acquisition agreement, and not listing appropriate exceptions from those in the disclosure schedule. Avoiding this mistake is absolutely critical to avoid potential liability. Other key IP issues that arise in the disclosure schedule include the following:

- Failing to list all patents and patent applications, with dates and jurisdictions covered
- Failing to list all required license agreements and technology agreements.
- Failing to accurately reflect the titles of contracts, parties thereto, dates and any amendments.
- Failing to list all seller domain names, trademark and service marks
- Failing to list any IP claims against the seller
- Failing to list any customer contracts where the seller has given IP indemnification.
- Failing to list any bank loans or other encumbrances on the selling company's IP.

Disclaimers by the Seller

One of the most significant claims that an unhappy acquirer may complain that information provided to it in due diligence sessions with management or documents made available in a data room were false or misleading. Unfortunately, if buyer's remorse sets in, it becomes too easy for an acquirer to launch a lawsuit which includes an allegation of fraud, no matter how clean a seller's business might have been or no matter how unmeritorious the claim really is. Recognizing that post-closing lawsuits are brought from time to time by unhappy acquirers (as opposed to acquirers truly harmed by seller misconduct), it is desirable for sellers to implement some important precautions such as making sure that the acquisition agreement includes an express disclaimer made by the seller and acknowledged by the acquirer that the seller is only making the representations and warranties set forth in the acquisition agreement. In particular, the seller should disclaim making any representations or warranties as to nay projections, forecasts or possible future operating results. Secondly, the acquirer should expressly state in the acquisition agreement that it has conducted its own investigation of the business of the seller and is not relying upon any representation or warranty of the seller (or any of its officers, employees or advisors) other than those set forth in the acquisition agreement. Further, sellers are also advised to define exactly what is meant by the term 'fraud'. Without limiting the scope of this term, a seller might have exposure beyond customary notions of 'actual fraud' (such as liability for reckless statements, constructive fraud, or even statements not relied upon by the acquirer). In this regard, a seller should consider defining 'fraud' consistent with typical state law definitions: With such clauses in the acquisition agreement, the seller will reduce the chances that an acquirer having second thoughts about the business that it acquired will prevail in alleging that it was misled into buying by the seller.

Limitation of Representations

The seller usually wants to ensure that it is not required to make any representations and warranties as to its ownership of IP that speak to the period following the closing, when there may be factors beyond its control (including prior agreements entered into by the acquirer) that limit the right of the seller or the acquirer to exploit the IP. The following have been identified as several examples of matters that may encumber or limit the seller's ability to exploit its owned IP following the closing of an acquisition:

- Claims by third parties that parents are invalid (as a result of the existence of 'prior art' or otherwise)
- Liens on the IP in favour of banks or other lending institutions
- Claims by third parties that the IP infringes their patents or other IP rights
- Inadequate evidence that the employees or contractors who contributed to the creation of the IP assigned their rights in the IP to the seller.
- Rights of first refusal, exclusivity or similar rights in favor of third parties with respect to the IP
- The failure to have obtained any third-party consents necessary for the IP to have been transferred to the seller (if not originally developed by the company).
- Broad licenses to the IP in favor of third parties that compete or may compete with the seller.
- Open source issues
- The failure of the seller to have appropriately registered the IP with the applicable government body[24].

[24] Ibid

IP licenses and other IP-related agreements typically contain provisions requiring the consent of the other party to a change of control of the selling company or an assignment of the agreement by the selling company. The extent of which such consent is required frequently turns on the structure of the acquisition transaction. Almost always, an asset sale structure will require third-party consent. In contrast,

5. Conclusion and Recommendations

As noted earlier, Intellectual Property is a very important issue in Mergers and acquisition. A successful merger and acquisition process should leave the acquiring company stronger (both in assets and resources), zero competition in market control and enhanced business and capacities. The paper found that Although IP rights gained by the acquiring company are intangible in nature, they help in no small measure in repositioning the acquiring company and giving it a boost in the business market. However, IP itself is often considered as a risk allocation issue giving its fluidity and the complex legal regimes associated with its various aspects. This paper accordingly found that an effective due diligence is the process of negotiation of mergers and acquisitions in order to achieve the desired result as far as IP assets are concerned. It is therefore recommended that a thorough and effective due diligence is conducted to ensure a successful and beneficial M & A deal. It is also recommended that the IP component of M & A should be optionally managed so as to realize the desired benefits for the two or more companies involved. It is equally important that experts in the relevant fields are involved in the process of mergers and acquisitions with regard to IP rights. Such experts would include financial and legal experts especially in the field of IP. It is also recommended that increased access to these experts be given to all who have need to interact with them in the course of the transactions. Whether third-party consent is required for a sale of stock of the selling company, or a merger involving the selling company, will require a careful review of the contract language as well as the relevant case law. Failure to obtain a required consent might result in breach of the IP licence or other IP-related agreement by the selling company. Consequently, an acquirer ought o require the selling company to represent in the acquisition agreement whether the transaction requires any such consents. Further, an acquirer should seek to have closing conditioned upon receipt of the most important consents and further, might seek indemnification if failure to obtain a material required consent will result in a loss of the IP licence or related IP agreement. Given these possible consequences, a seller and its counsel will need to thoroughly review the 'anti-assignment provisions', included in all of the selling company's IP licences and other IP-related agreements. In addition, the seller should consider which transaction structure poses the least risk to the selling stockholders if such consent cannot be easily obtained at no significant cost to the seller. For example, a stock purchase or merger structure may be preferable to an asset purchase if the seller's agreement with third parties require consent to an 'assignment' of the IP but not to a 'change of control' of the seller. In a stock purchase there is typically no 'assignment' of the IP assets, but still there may be third-party rights triggered by the 'change of control' inherent in such a transaction. If the seller has key IP that is only transferable to the acquirer with the consent of third parties, the seller may wish to obtain such consent prior to entering into the definitive acquisition agreement. However, the effort to obtain such a consent necessarily requires disclosure of the proposed acquisition agreement may result in the seller running the risk that the transaction may ultimately fail if the third party later refuses to grant its consent. Moreover, the third party may require the payment of a fee, or may demand material changes to its IP agreements with the seller, as the price for granting its consent.