Insights: Alerts

# 5 Key Takeaways: IP Considerations in M&A Transactions

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Mergers and acquisitions (M&A) in the digital era increasingly involve a number of significant intellectual property ("IP") issues. It is critical to a successful M&A transaction for in-house counsel to involve experienced IP counsel, working closely with its M&A counsel, to advise on such issues, including:

- The status of the seller's IP and its treatment in the hands of the buyer is an integral IP issue in M&A transactions. The buyer will want to confirm through both due diligence and contractual provisions that the value it places on the seller's IP is supported by the degree to which the seller owns (or has the right to use) all of the IP that is necessary to conduct its business.
- Issues that may encumber or limit the buyer's ability to exploit the IP following the closing of an acquisition, include:
  - Third party claims that patents are invalid (e.g., due "prior art")
  - Liens on the IP in favor of banks or other lending institutions
  - Third party claims that the IP infringes their rights
  - Assignment of rights by employees/contractors/third parties that helped create the IP
  - Broad licenses, rights of first refusal, exclusivity or similar rights granted to third parties with respect to the IP
  - Use of open source in the IP developed or acquired by the seller
  - Failure of the seller to have appropriately registered the IP with the applicable governmental agency if federal funds were utilized in the development of the IP
  - Seller's policies, practices, and security measures regarding data protection and privacy issues
- Essential IP provisions in the M&A agreement include carefully drafted disclosure schedules that list the seller's IP and any exceptions thereto and/or encumbrances thereon, the IP representations and warranties, and the seller's indemnification obligations for any breach thereof.
- IP representations and warranties typically focus on ownership, infringement, no pending/threatened litigation, and sufficiency (i.e., the IP assets and rights constitute all the IP assets and rights necessary to operate the business in the same manner as it has been operated prior to closing). The scope and limitations (e.g., materiality and knowledge qualifiers) with respect to such are heavily negotiated.
- Negotiations relating to the seller's obligation to indemnify the buyer post-closing for any breach of its IP representations and warranties include the following: (a) scope and survival of the seller's indemnification obligations; (b) caps, if any, on exposure (e.g., limited to a portion of the purchase price placed in escrow); (c) thresholds and deductibles; and (d) control of the defense of claims.