PATENT LICENSING AND CORPORATE TRANSACTIONS: ANALYZING THE ROLE OF INTELLECTUAL PROPERTY IN MERGERS AND ACQUISITIONS

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ABSTRACT

Intellectual Property (IP) and Mergers and Acquisitions(M&A) both play an important role in today's dynamic business environment. They have become a common strategy for firms to grow, reconstruct, and maximize profits. IP plays a crucial role in M&A transactions, as it can significantly impact the value of the deal, the acquirer's interests, and the integration of acquired IP assets. This paper's main aim is to analyse IP's role in M&A transactions, with a specific focus on Patent licensing and Corporate transactions. It begins by providing an overview of the existing literature on the confluence of IP and M&A, highlighting the importance of due diligence practices, integration techniques, and legal factors. The paper delves into the legal framework governing IP in India, analyzing the provisions of the acts and their implications for IP in M&A transactions. The analysis recognises that the legal system in India is complex and necessitates careful consideration of a number of elements, including the type of intellectual property asset, the ownership structure, and the licencing agreements. Moreover, it highlights the importance of rational allocation of IP rights in M&A transactions, particularly in spin-outs and joint ventures. Furthermore, it presents a detailed analysis of patent licensing in M&A transactions. The analysis reveals that patent licensing can be a valuable strategy for companies to acquire new technology, expand their product portfolio, and enter new markets. However, patent licensing also involves significant risks, such as the risk of infringement, invalidity, and licensing fees. The paper examines the different considerations that companies should consider when engaging in patent licencing, such as licence scope, licence period, and royalty rates. Finally, by emphasizing the importance of conducting proper due diligence on IP assets before acquiring or merging with the IP owner, the paper suggests that companies should adopt a strategic approach to IP.

Keywords: Intellectual Property Rights, Mergers, Acquisitions, Due Diligence, Patent Licensing.

INTRODUCTION

In today's dynamic world, where firms struggle for survival and stability, exclusivity plays a significant part in helping them gain an advantage over competitors, and this is accomplished by gaining Intellectual Property Rights over the latest technology developed. IP assets are regarded as key resources in a transaction since Intellectual Property has become an essential component in establishing the enterprise value of many companies engaging in M&A. IP plays an obscure role in two aspects of the company: the primary one is by creating certain Intellectual Property intensive industries, such as life sciences, where the value of pharmaceuticals is frequently viewed with the scope of patent protection, and the subsequent one is by creating certain deal structures, such as spin-outs and joint ventures, where the rational allocation of Intellectual Property Rights is an unavoidable necessity.

Merger and Acquisition is a tool for reconstruction of the company in order to maximize the wealth of the company and create goodwill in the global market. Merger refers to consolidation of two companies into one company, while Acquisition refers to a takeover of one company by another company by purchasing its ownership stake. Intellectual Property is an incorporeal Property which is invented or created by human intellect. Intellectual Properties are intangible in nature and possess a right i.e. *Right in Rem,* which means that the inventor has the right towards the property wholly. They can be seen as an intangible assets of a company, such as trademark, patent, copyright, trade secrets, etc.

Extensive research has been conducted on the intersection of Intellectual Property Rights and Mergers and Acquisitions. Scholars have looked into a variety of topics, including the valuation of Intellectual Property assets, due diligence practices, integration techniques, and legal factors. Existing research has underlined the importance of Intellectual Property rights in increasing the value of M&A transactions, preserving the acquirer's interests, and guaranteeing the smooth integration of acquired IP assets. Furthermore, comparative studies have been done to examine disparities in Intellectual Property practices and policies among industries and geographies. These studies provide useful insights into the intricacies and challenges of Intellectual Property rights in M&A transactions.

INTELLECTUAL PROPERTY RIGHTS AND MERGER & ACQUISITIONS: A STUDY OF THE INTERFACE

The objective of a merger or acquisition is to grow, rebuild, and maximise profits in order to maintain the company's standards in the global market; both involve tracking deals and transferring the rights of others, as well as giving special attention to Intellectual Property issues in the integration and marketing of purchases. When two companies merge, the main purpose of the merger is to enhance and maximise profits and reach their desired goals. While in Acquisition, when one company takes over the other company by purchasing its ownership stake, most of the time, such a stake is more than 50%, which allows the company to take control over the other company's management. When two companies merge, all of the tangible and intangible assets of the acquiring company become part of its assets. Intellectual Property is the organisation's most essential intangible asset and is regarded as the corporation's most valuable asset.[1]

According to the *World Intellectual Property Organisation (WIPO)*, Intellectual Property refers to creations of the mind, such as inventions, literary and artistic works, designs, symbols, names and images used in commerce.[2]

The *TRIPS agreement* specifies that it covers the following areas of intellectual property: copyright and related rights (i.e. the rights of performers, producers of sound recordings, and broadcasting organisations); trademarks, including service marks; geographical indications, including appellations of origin; industrial designs; patents, including the protection of new varieties of plants; integrated circuit layout-designs; and undisclosed information.[3]

Under the *Companies Act*, a merger is defined as the amalgamation of two or more companies into one new or existing company, while an acquisition is defined as the purchase of one company by another company. A combination is a term that includes both Mergers and acquisitions.[4]

The interface between Intellectual Property Rights and Mergers & Acquisitions is very crucial, as Intellectual Property plays a vital role in Mergers and acquisitions. The target company's intellectual property will be added to the purchasing company's asset portfolio. This will

[1] Saha CN, Bhattacharya, *S. Intellectual Property rights: An overview and implications in pharmaceutical industry*. VOL. 2, J ADV PHARM TECHNOL RES., 88, pp- 88-93, (2011).
[2] WIPO, art. 2, 14th July, 1975.
[3] TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994)
[4] Companies Act, 2013, § 232, No. 18, Acts of Parliament, 2013 (India)

inevitably lead to the company's growth. Furthermore, Mergers and Acquisitions will enable organizations to exchange their technology, trade secrets, and business algorithms.[5] This will assist the organisation in developing its operations and capitalise on market opportunities. As a result, the company will gain a competitive advantage since technology transfer will increase the quality of its products or services. Furthermore, by increasing sales, the merger will pave the way for a dominant market position.

With the advent of the 'ideal economy,' the importance of Intellectual Property in business and its economic viability has increased dramatically. Growing evidence from the practice supports the tendency that companies more frequently engage external sources of innovation in order to maintain competitiveness towards market rivals.[6] As a result, we can see that businesses value Intellectual Property as much as, if not more than, tangible assets. Investing in Intellectual Property rights has proven to be not only a profitable investment option but also to transform the commercial fate of enterprises. Investing in Intellectual Property Rights has proven to be not only a profitable investment option but also to transform the commercial fate of enterprises. M&A helps companies consolidate resources and expand market share. Intellectual Property (IP) encompasses exclusive rights over intangible properties like patents, trademarks, copyrights, geographical indications, design rights, plant variety protection, traditional knowledge, and trade secrets. Each IP has unique rights, granting a monopoly over commercial use and restricting others from using the subject matter without the owner's authorization. This monopoly has significant economic value. M&A transactions involve IP transactions, as every business holds some form of IP[7], whether registered or not.

Intellectual Property is important in a company's strategic development because it is one of the main reasons for a company's Mergers and acquisitions. The desire of Fortune companies to acquire unique IP rights, trademarks, patents, copyrights, trade secrets, and so on is the primary reason for the majority of Mergers and acquisitions, as this gives exclusivity to the companies or businesses to own it, and also helps them maximize profits.[8] Such Merger or Acquisition strengthens the market share and improve their management system. Advances in technology

[5] Robins, M. B. , *Intellectual Property and Information Technology Due Diligence in Mergers and Acquisitions: A More Substantive Approach Needed* , 9, Journal of Law, Technology and Policy, p. 321, (2008)
[6] Narula, R.,*Choosing between internal and non-internal R&D activities: some technological and economic factors*, 13, Technology Analysis & Strategic Management, pp. 365-387, (2001)
[7] BERMAN, B. ET AL, FROM ASSETS TO PROFITS: COMPETING FOR IP VALUE & RETURN, p. 217 (John Wiley & Sons, 2009)
[8] LANNING G. BRYER, , MELVIN SIMENSKY, Intellectual Property assets in Mergers and Acquisitions , p. 12.19 , (John Wiley & Sons, 2002)

have enhanced the relevance and value of a company's intellectual property, making it a pillar of commercial transactions. It is critical to identify and analyze the worth of a company's Intellectual Property since it directly impacts transaction value.

In today's brand-driven world, Intellectual Property (IP) is a valuable asset for businesses due to its goodwill. A well-managed IP portfolio can significantly benefit from M&As, as it allows access to new products, competencies, technology, marketplaces, customer bases, and geography. Acquiring IP helps gain a foothold in a new sector and expand. IP transactions are typically captured in licence or sale agreements, and it is crucial to consider the applicable laws and reciprocal obligations of the jurisdiction where the IP is registered.

VALUATION OF INTELLECTUAL PROPERTY RIGHTS IN MERGERS AND ACQUISITIONS

Mergers and Acquisitions provide the buyer with direct access to the target's intellectual property. An IP transfer chain is formed by the transfer of Intellectual Property assets and the right to use them from the target organisation to the buyer. Transferring Intellectual Property assets must make financial and strategic sense for all parties. If the M&A transaction results in additional restructuring, such as outsourcing critical IT operations, the operative and legal transfers of IP assets to third-party service providers become more complicated.[9] The valuation of Intellectual Property rights is essential because it entails determining a reasonable value for a company's Intellectual Property that can be monetized and used to leverage the ultimate selling price. In order to sell, license, or participate in any commercial transactions based on IP, the IP asset must be valued. Determining the monetary value of the target company's IP portfolio is especially crucial when the merger entails purchasing the target company's IP assets.

IP assets are a potentially significant strategic component for establishing long-term competitiveness in all knowledge-based industries. However, their relevance and potential for value contribution must align with the strategic logic underlying the M&A agreement.[10]

Many Intellectual Property issues occur during Mergers and acquisitions. Certain critical

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[9] I. Skultetyova, *Intellectual Property in Mergers and acquisitions: Deal maker or deal breaker?: A substantive analyses of due diligence in IP driven Mergers and acquisitions*, 2012, p. 51–58.
[10] *Id.*

elements must be addressed when negotiating the exchange or transaction of receivables. IP due diligence is the process of conducting an investigation to verify the financial and legal status of a target business; nevertheless, having different diligence given IP can help the consumer not only deal with which intangible assets will fall under the circumstances but also avoid potential issues. This activity's primary goal is to identify an enterprise's current Intellectual Property assets by evaluating papers confirming ownership of an Intellectual Property object and determining whether these Intellectual Property rights are at risk. For example, whether the company is infringing on third-party Intellectual Property rights and whether or not there are any conflicts in this regard.

Intellectual Property due diligence refers to a thorough investigation performed before any merger or acquisition to determine the value of the target company's intellectual property.[11] This is done so that there is no mishap that takes place in future. IP due diligence is one of the most important aspects during a merger or acquisition. Every company, business or firm makes sure that they conduct IP due diligence before they merge with the company, or acquire the company.

While conducting IP due diligence, a Memorandum of Understanding (MOU) is a crucial document for sharing information, plans, and trade secrets between parties involved in an M&A transaction. Due diligence is essential for both buyers and sellers, as it helps assess the target company's current status, intrinsic value, and potential risks.[12] It also helps the acquirer understand the target's IP assets and ensures they have the necessary IP for conducting the business. IP due diligence helps identify risks, secure evidence, and analyze detailed facts about the target's IP assets, transferability, and future rights of use. Both parties in an M&A transaction typically conduct IP due diligence, with buy-side due diligence ensuring no surprises after the purchase agreement is signed and sell-side due diligence aiming to transfer selected IP rights to the potential buyer to underpin the target company's desired value or price. There are also various steps conducted during IP due diligence, and they are signing an NDA, identifying the IP assets, evaluating the IP title and ownership, evaluating third-party rights in

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[11] Steven De Schrijver & Matthias Demeyer, *IP Due Diligence In M&A Transactions*, CORPORATE LIVEWIRE, https://www.corporatelivewire.com/top-story.html?id=ip-due-diligence-in-ma-transactions, (Last visited Sep 6, 2023).

[12] IIPRD, https://www.iiprd.com/role-and-significance-of-ip-due-diligence-in-ma-transactions-in-india/, (Last visited Sept, 6, 2023)

the IP of the target, Evaluating IP infringements and reviewing litigation documents, and then the final due diligence report.[13]

Upon the completion of the due diligence, the parties will have a clear plan for tackling the challenging process of IP valuation. The sole criterion for Intellectual Property valuation is that it can help in capitalization. In Mergers and Acquisitions, where the major assets involved in the transaction are intellectual property, the valuation of these assets is frequently critical to the transaction's successful conclusion. Intellectual Property valuation not only allows for the precise allocation of value to Intellectual Property or identifiable intangible assets, but it also improves the overall presentation of a balance sheet and increases net asset per share.[14]

There is no standard method for valuing intellectual property, which creates a quandary. Particular challenges arise when valuing Intellectual Property across jurisdictions because valuation methods fluctuate depending on the country (i.e., tax and other legislation, government policies, and applicable market trends). However, the three major methodologies for IP valuation are cost method, market approach, and income method, as they play a vital role in the valuation of IP in Mergers and Acquisitions.[15]

A. Significant assets being intangible

Intangible Assets- A business establishment owns several assets, including both tangible and intangible assets. The intangible assets do not possess any physical form, including goodwill, Intellectual Property and brands. These non-physical assets have immense value and contribute to the company's long-term financial success. The total worth of intangible assets has notably risen over the past few decades, especially when accounting for intangibles that aren't easily quantifiable and included on balance sheets. Even when only looking at assets that are officially recorded on a company's balance sheet, intangibles have become a significant component, often constituting 20-45% of the total asset value. According to some estimates, if we consider additional hidden intangibles like reputation and employee knowledge, this percentage can be much higher, potentially around 85%. In essence, this trend signifies that businesses are

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[13] Sikha Sachdeva, *Procedure and protection of Intellectual Property in M&A*, LEXOLOGY (2020), https://www.lexology.com/library/detail.aspx?g=832c7b2d-102a-4708-9593-93c68174436d (last visited Oct 10, 2023).
[14] Mr. Sujoy Kumar Paul, THE DOMINANT FORCE IN FUTURE COMMERCIAL TRANSACTIONS COMPRISING MERGERS AND ACQUISITIONS, SSRN, 1, p. 4-6, 2009
[15] *Id.*

increasingly focused on safeguarding their intangible assets. The protection of these assets will have a growing impact on the long-term competitiveness and success of businesses in all industries[16].

The concept of Intellectual Property rights (IPR) encompasses the legal framework for safeguarding ideas, innovations, and creative works, granting them the status of property. IPR grants creators and inventors certain exclusive rights, enabling them to derive commercial advantages from their inventive efforts or the recognition they receive. Various forms of Intellectual Property protection exist, including patents, copyrights, trademarks, etc. A patent is an acknowledgement of an invention meeting global standards of originality, non-obviousness, and practical application. IPR is essential for improved identification, strategic planning, commercialization, presentation, and the protection of inventions and creative endeavours[17].

Mergers and acquisitions can significantly impact a firm's intellectual property. This is majorly because when companies merge or acquire another company, the question of who will handle the rights over the Intellectual Property becomes a major consideration as their value often factors into the overall purchase price of the target company. The acquirers may assess the strength and the relevance of these IPs in order to determine the worth and potential of the company and, henceforth, their deal. Through calculated actions like joint ventures, licensing agreements, or the commercialization of the target company's Intellectual Property assets, IPR can be used as an income stream. The acquiring business can create new revenue streams and obtain a return on investment by utilizing these assets, which improves the merger or acquisition's overall financial performance.

These IPs also provide a significant competitive advantage as acquiring a company with a stronger IPR portfolio also strengthens the position of the acquiring company in the market, thereby providing it with exclusive rights, innovative products and a more secure market position.[18] Additionally, by providing the acquiring company with access to such cutting-edge

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[16] KPMG, *https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2020/08/lloyds-intangibles-6-aug-2020-.pdf*, (Last visited on, Sept, 18, 2023)

[17] *supra* note, 1.

[18] Maria del Coro Gutierez Pla & Lynn Burtchaell, *Managing Intellectual Property Rights In Innovation: The Key to Reaching The Market*, WIPO, https://www.wipo.int/wipo_magazine/en/2021/01/article_0009.html (last visited Sep 30, 2023).

technologies, scientific discoveries and knowledge, the integration further helps to speed up the innovation, thereby providing a competitive advantage to the acquiring or the merging firm.

Therefore, the assessment of Intellectual Property rights in the target company's portfolio has several uses in the context of Mergers and Acquisitions. It serves as an essential risk mitigation tool by highlighting the possible legal challenges that can have a detrimental impact on the transaction's outcome or cost. This means a thorough investigation of any litigation that is still pending, challenges to already-issued patents, or possible infringement claims that may become liabilities during or after the acquisition process. The acquiring corporation can proactively address and negotiate legal issues through the process of due diligence.

Henceforth, IPR plays a dynamic role in M&A deals that encompasses both capitalising revenue-generating potential and mitigating risks. The commercialization of Intellectual Property through partnerships and licensing can generate new revenue streams, while rigorous assessment aids the purchasing company in identifying and navigating possible legal difficulties. The process of integration that follows not only improves operational efficiency and cost-effectiveness but also stimulates innovation, fortifying the acquiring company's competitive position and guaranteeing a more prosperous and successful post-acquisition result.

NEGOTIATING PATENT LICENSING IN MERGERS AND ACQUISITION

Patent Licensing is done when a company, via merger or acquisition, makes an agreement with the patent owner and the person or company who wants to use and benefit from the patent. This agreement allows the licensee, the corporation, to manufacture or sell the product, create the product, or add technology to the patent. During the licencing period, this patent generates revenue for both the corporation and the patent owner. Negotiating patent licencing agreements is critical in M&A since it entails agreements and considerations from both sides. Patent licence agreements avoid standardisation since the provisions of the contract are suited to the parties' features and needs.[19]

Patent owners desire to retain ownership of their patents. In exchange for money, a patentee

[19] Raymond C. Nordhaus, *Patent License Agreements*, 21, BUS. LAW, p. 643, 643 (1966).

will frequently offer licences to chosen parties to use his or her invention.[20] A patent owner would prefer that a licensee not be allowed to assign that licence to a third party without his or her authorization. A transfer to a third party would weaken or lessen the patent's value. Furthermore, a patent holder would be particularly frustrated and disheartened if, despite the patentee's efforts, a competitor was able to take control of a licence by simply going to a licensee to whom a licence had been granted.[21]

A company wanting to purchase another company that has a patent licence, on the other hand, will want to be able to obtain that licence without having to approach the patentee for approval. The acquisition of the licensee may be the only method for the acquiring business to take control of the licence. If the patented technology is fundamental to the company's existence in the market, retaining the capacity to acquire licences through acquisition becomes critical.[22]

Patent licenses are personal to the licensee and are not assignable without language in the license permitting assignments. This general rule may be attributed to three principal cases: *Troy Iron and Nail Factory v. Corning*,[23] *Hapgood v. Hewitt,*[24] and *Oliver v. Rumford Chemical Works*.[25] The general rule relates to situations in which a licensee may assign a license to a third party. Applying the general rule, a company that has been excluded by a patentee cannot seek a license through an assignment or sublicense from an existing licensee.

Negotiation of patent licence agreements is necessary because these licences are contracts rather than immediate transactions. Furthermore, it is required as the purpose of the agreement is to maximize both parties' gains from trade that is generated from the technology.[26] Technology provides another source of variation across patent licence agreements. Over here, the patented technology is unique to the patent owner, and the benefits from applying that unique technology will likely vary across companies because they operate different businesses. This implies that the combination of the patent owner’s technology with the company’s

[20] Sheldon W. Halpern et al, *Fundamentals of United States Intellectual Property Law: Copyright, Patent, and Trademark* , p. 250 (1999).
[21] Ramon A. Klitzke, *Patent Licensing: Concerted Action by Licensees*, 13, Del. J. Corp. L., p. 459 - 463 (1988)
[22] Sung Yang*, Considerations For The Patent Holder: The Transfer of Patent Licenses In The Context of a Merger,* 42, THE JOURNAL OF LAW AND TECHNOLOGY, 517 - 519 (2002).
[23] 55 U.S. 193 (1852).
[24] 119 U.S. 226 (1886).
[25] 109 U.S. 75 (1883).
[26] Anatole Krattiger et al., *Technology and Product Licensing*, GUIDE TO Intellectual Property MANAGEMENT IN HEALTH AND AGRICULTURAL INNOVATION: A HANDBOOK OF BEST PRACTICES (2007).

application and characteristics is likely to produce unique outcomes and variations across patent licence agreements.[27]

In such circumstances, patent owners not only receive monetary compensation for their invention, but they also have the right to direct how it is refined, commercialised, utilised in innovation, and used in production. As a result, ownership of intellectual property assets in mergers and acquisitions includes both financial returns and control rights. As a result, bargaining assists industries in obtaining the benefits of standardisation, which enhances the returns on technology adoption and the value of the best alternative technologies.

The coexistence of patent and antitrust laws is crucial for the licensing of technology in companies. Patent law grants exclusive rights to inventions for a limited period, while antitrust laws may limit patent holders' freedom to exercise these rights. Companies often hold patents on certain technologies, which can prevent others from developing products without a license. To overcome this, companies enter into cross-licensing arrangements, allowing the development of rival technologies. Cross-licensing is often a preferred settlement remedy in patent infringement cases. The interpretation of antitrust laws and enforcement has significantly impacted patent holders' flexibility to license their technology. The America Invents Act of 2011 made significant changes to the U.S. patent system, transitioning from a "first-to-invent" to a "first-inventor-to-file" system.[28] Understanding the coexistence of patent and antitrust laws is essential for companies to navigate the complex legal landscape and protect their Intellectual Property rights while avoiding antitrust violations. Cross-licensing arrangements can help companies overcome patent barriers and develop rival technologies.

Antitrust interpretation and enforcement significantly affect patent holders' flexibility to license their technology. For instance, in the 1970s and 1980s, the Department of Justice (DOJ) brought antitrust cases against IBM, alleging it abused its dominant market position in the computer industry. The DOJ dropped the case in 1982, but the litigation significantly impacted the technology industry and patent licensing.[29]

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[27] Daniel F. Spulber, *Antitrust Policy Toward Patent Licensing: Why Negotiation Matters,* 22, MINNESOTA JOURNAL OF LAW, SCIENCE & TECHNOLOGY, 95- 102 (2021).
[28] Reynolds, Steven P. "ANTITRUST AND PATENT LICENSING: CYCLES OF ENFORCEMENT AND CURRENT POLICY." *Jurimetrics*, vol. 37, no. 2, 1997, pp. 129–48. *JSTOR*, http://www.jstor.org/stable/29762458.
[29] *Id.*

If a licensed patent or know-how is worthless, the licensee can avoid the contract, relying on judicial relief to recover a base payment or release from the duty of paying fixed periodic payments or minimum royalties. In patent license cases, the licensee bargains for the right to develop an imperfect idea or the chance that an invention might become profitable, fulfilling their expectations. However, courts often hold licensees to their contracts, as the right to operate under a legally protected patent is considered a form of consideration. The licensee bargains not only for the right to act without fear of suit for infringement but also for the rights to exploit the process or product covered by the patent. The license provision assures the licensee that they will not be sued for infringement, but if the information and ideas are useless and unsuited to the licensee's purposes, the right to use them is not valuable. Better reasoned cases recognize that a licensed product or process must be marketable or commercially exploit the licensee to their contract.[30]

It should not be concluded that warranties will be implied only when the product accompanies an invention or plan and not when the invention or plan alone is exchanged, for there is no significant difference between the two transactions for the purposes of the warranty law. If a licensor himself makes a device pursuant to his invention and licenses another to use or sell the device, and the device is defective due to the invention's failure, the licensee has an implied warranty remedy[31] it would be incongruous to deny the licensee the same remedy simply because he has made exactly the same defect.

Due to the complicated nature of patents, know-how and technical assistance, a licensee who has examined the subject matter of the license could still have a warranty remedy. If reasonable inspection before completion of the negotiations for the licensee is impossible or impracticable, even though the licensee has the knowledge necessary to undertake a meaningful inspection, such inspection is not required. This is not to say that inspection need not be made because it would involve labour or inconvenience, but often the applicability of the licensed plans or invention to the licensee's needs will not be ascertainable until they are transformed and actually used by the licensee. Moreover, the licensor might be reluctant to allow inspection if trade secrets are involved.

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[30] Vukowich, William T. "Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements." *California Law Review*, vol. 56, no. 1, 1968, pp. 168–97. *JSTOR*, https://doi.org/10.2307/3479503.

[31] Milwaukee Tank Works v. Metals Coating Co. of America, 196 Wis. 191, 218 N.W. 835 (1928).; Nettograph Mach. Co. v. Brown, 28 Okla. 436, 114 P. 1102 (191).

Patent law posits that patent licenses do not guarantee the validity of a patent and that a patentee has no duty to disclose any information that might affect the patent's value. This means that a licensor is not required to disclose any known defects or limitations of the patent to the licensee, potentially leaving the licensee with a patent that is not as valuable as they had anticipated. However, implied warranties of fitness for a particular purpose and merchantability may still arise in patent licensing agreements.[32]

In licensing agreements involving know-how, the licensee may expect the licensor to have a certain level of expertise and provide necessary information and assistance. However, the scope of implied warranties may be limited by the terms of the agreement. The licensee should carefully review the terms of the agreement to ensure their expectations are met.

Patent licenses are risky as they involve the use of unproven technology, making it difficult for licensees to predict its success and recoup their investment. Courts have been cautious in awarding damages for lost profits in cases involving new businesses or enterprises, as the potential profits are speculative and may not be realized if the technology fails. However, if a licensee can prove it lost profits due to the licensor's breach of the license agreement, such as failing to provide necessary technical assistance, it may be able to recover damages for lost profits. Licensors should be aware of the potential risks associated with licensing unproven technology and take steps to mitigate them.

Furthermore, to conclude, it's necessary for us to know about the Grant of the License as well as the Obligations of the Licensor and Licensee. In brief, they are understood as follows: The license may be exclusive or nonexclusive. When a licensor grants an unlimited conventional exclusive license to another to practice a patented invention, the licensor is precluded from practising the patented invention himself[33] and from granting licenses to others to practice the invention. [34]Contrastingly, when a licensor grants a conventional nonexclusive license, the licensor may practice the invention himself and may properly authorize others to practice the invention. A nonexclusive license constitutes merely a waiver of an infringement suit or covenant not to sue under the licensed patent. In addition, various hybrid arrangements, wherein the rights granted to a licensee are partially exclusive, are not uncommon. For example, the license may be exclusive except as to the licensor himself or a prior non-exclusive

[32] *supra* note 30.
[33] Cutter Laboratories, Inc. v. Lyophile-Cryochem Corp., 84 USPQ 54, 65 (C A. 9, 1949).
[34] Rollman v. Commissioner of Internal Revenue, 113 USPQ 356, 361 (C. A. 4, 1957).

licensee.[35] An exclusive or nonexclusive license may be wholly unlimited in scope or limited in any one of a number of different people.

There are certain obligations and warranties that are supposed to be followed by the licensor; during the life of the license agreement, the licensor may make improvements to the licensed invention. The right of the licensee, if any, to use such should be set forth in the license agreement. Whereas there are certain obligations by the licensee as well, during the license agreement, the licensee will frequently make improvements in the license invention. Occasionally, the licensee will agree to license or assign such improvements to the licenser.[36]

ANALYSIS OF JUDICIAL PRECEDENTS PERTAINING TO IPR IN M&A

The acquisition of Rolls Royce by Volkswagen and BMW is one of the classic examples of IP in M&A, demonstrating the need for IP due diligence prior to the merger or acquisition of an IP right or asset. Rolls-Royce was split into Rolls-Royce Motor Cars and Rolls-Royce PLC in 1973. Vickers acquired Rolls-Royce in 1980, but Volkswagen acquired it for around $800 million. However, Volkswagen had acquired all the assets required for the production of cars but was restricted to use the Logo of Rolls Royce, as the rights to the Rolls-Royce trademark remained in the possession of Rolls-Royce PLC. Volkswagen assumed ownership of Rolls-Royce Motor Cars, including the manufacturing plant, but did not own the brand name Rolls-Royce. When Volkswagen overlooked the fact, it appeared that prior to the Acquisition, BMW had already acquired the right to use Rolls Royce Logo for its car. Volkswagen purchased all rights to manufacture Rolls Royce cars but did not have engines for their car as BMW was producing engines for Rolls Royce. Due to the lapse in due diligence, the trademark logo ended up in the hands of BMW rather than Volkswagen. Hence, as the Rolls Royce factory was manufacturing both Rolls Royce and Bentley cars, in 2003 BMW became the owner of Rolls Royce and Volkswagen became the sole manufacturer of Bentley cars.

And one of the most recent and famous examples is the acquisition of the Luxury Italian fashion house Versace by Michael Kors. The main objective of this deal is to access new product lines and markets through an established brand and IP portfolio, and also to increase their global

[35] Mechanical Ice Tray Corp. v. General Motors Corp., 62 USPQ 397, 402 (C A. 2, 1944).
[36] NORDHAUS, RAYMOND C. "PATENT LICENSE AGREEMENTS." *The Business Lawyer*, vol. 21, no. 3, 1966, pp. 643–59. *JSTOR*, http://www.jstor.org/stable/40684094.

market share, diversify their product line and increase their customer reach through better online and offline presence.

In the case of *Unarco Indus., Inc. v. Kelley Co., Inc.,*[37] the defendant company attempted to acquire the licensee after efforts to merge with the patent holder failed. The acquiring company and the licensee sued the patent holder, seeking a declaratory judgment regarding the assignability of the patent license. The issue presented before the court was whether the licensee had the right to assign the license. The court confirmed that federal law would apply to issues involving the assignability of patent licenses. In addition, the court restated that "[licenses] are personal to the licensee and not assignable unless expressly made so in the agreement", expressly following federal patent law. However, the court failed to provide a holding on point. The court never discussed the possibility that a patent license could be transferred from the licensee to the surviving company by operation of law – that is, without a formal assignment.

This issue, however, was eventually addressed in the case of *PPG Indus., Inc. v. Guardian Indus*,[38] The plaintiff and the licensee were companies that exchanged patent licences. The parties agreed that the licensee would have no rights to assign the licence without the consent of the plaintiff. When the licensee merged with the defendant and continued to use the plaintiff's license. The plaintiff sued for infringement. The Court of Appeals for the Sixth Circuit held that the surviving corporation/defendant did not acquire licence rights from the acquired corporation/licensee.

The PPG Industries court adopted the Unarco Industries court's rules. It held that (1) federal law controls issues with respect to the assignability of a patent licence and (2) that patent licences are personal and, therefore, not assignable unless expressly made so. The court's most significant comment was in response to the defendant's assertion that a transfer did not occur because the defendant and licensee had merged pursuant to Ohio statute. The court stated, "[a] transfer is no less a transfer because it takes place by operation of law rather than by a particular act of the parties. The merger was affected by the parties, and the transfer was a result of their act of merging." Thus, the PPG Industries court articulated the default rule: transfers of a patent licence that occur by operation of law in a merger will violate an anti-assignment clause in the

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[37] *Unarco Industries, Inc. v. Kelley Company*, 465 F.2d 1303 (7th Cir. 1972)

[38] *PPG Industries v. Guardian Industries Corp.*, 156 F.3d 1351, 48 U.S.P.Q.2d 1351 (Fed. Cir. 1998)

licence, even where the licence does not define assignment to include transfers by operation of Law.

Both these cases focus mainly on how important Patent Licensing is in Mergers & Acquisitions, and in case there is a slight breach or mistake in the due diligence conducted, it will result in IP infringement. These two cases are persuasive in understanding the IP due diligence that is most necessary during Patent Licensing in Mergers & Acquisitions.

Therefore, as mentioned and described above in the case studies, it is apparent that IP plays an essential role in Mergers & Acquisitions and that the company must conduct due diligence on the IP asset before acquiring or merging with the IP owner.

IPR IN M&A – ANALYSIS OF THE LEGAL FRAMEWORK: ISSUES AND CHALLENGES

Intellectual Property rights in India are mainly governed under:

- Copyright Act, 1957
- Trade Marks Act, 1999
- Patents Act, 1970

While, Mergers and Acquisitions are governed by the Companies Act, 2013[39] which is administered by the Ministry of Corporate Affairs.

When an agreement takes place between the IP right holder and the company, the contractual obligations as per Section 10[40] and Section 11[41] of the Indian Contract Act, 1872, i.e the essentials to enter into a contract have to be fulfilled, without which the contract/agreement between both the parties will result in a void agreement. This is also required when negotiating patent licences as part of a merger and acquisition, which is governed by Section 67 of the Patents Act of 1970.[42]

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[39] Companies Act, 2013.
[40] Indian Contract Act, 1872, § 10, No. 9, Acts of Parliament, 1872 (India).
[41] Indian Contract Act, 1872, § 11, No. 9, Acts of Parliament, 1872 (India).
[42] Patents Act, 1970, § 67, No. 39 , Acts of Parliament 1970 (India).

The main challenges faced are:

1. *IP Ownership and Chain of Title*: Ensuring explicit ownership of Intellectual Property assets is critical for their transfer in an M&A transaction. Verifying the chain of title, establishing that the target company has adequate ownership rights, and analysing the risk of third-party claims or disputes over IP ownership may all pose difficulties.

2. *Valuation and Integration*: Determining the value of Intellectual Property assets can be difficult. Valuation necessitates an examination of the IP's market position, revenue generation potential, competitive advantage, and hazards. Integrating acquired IP into the purchasing company's existing portfolio or operations can be difficult as well, as it may require combining overlapping IP, maintaining licensing agreements, and harmonising IP goals.

3. *IP Due Diligence*: Conducting thorough IP due diligence is critical in M&A deals. It entails evaluating the target company's Intellectual Property assets, which include patents, trademarks, copyrights, trade secrets, and licences. The challenges include identifying all relevant IP assets, validating their ownership and validity, assessing potential risks such as infringement lawsuits, and evaluating the target company's IP strategy and portfolio strength.

4. *IP Infringement and Litigation*: Acquiring a company with IP assets may involve inheriting ongoing IP litigation or potential infringement risks. Assessing the target company's IP infringement history, ongoing disputes, or the possibility of future claims is essential to understand the potential financial and legal liabilities.

The challenges can vary depending on the nature of the deal, industry-specific factors, and the complexity of the IP assets involved. Engaging experienced IP attorneys and conducting thorough due diligence are crucial steps to address these challenges effectively in M&A transactions.

CONCLUSION

The paper portrays the absolute importance of IP assets in significantly increasing the value of M&A transactions, preserving the acquirer's interests, and guaranteeing the smooth integration of the acquired IP assets. The valuation of the IP poses a compelling impediment in cases of intangible IP. This has, however, to a certain extent, been eased out through the evolving procedure of the "IP Due Diligence" which can help identify various potential risks and opportunities which are associated with these assets. Another challenge in the M&A transactions is the integration of IP assets. The acquirer must ensure the acquired IP assets are integrated smoothly into their existing IP portfolio. This necessitates meticulous planning and execution, as well as a thorough understanding of the legal and regulatory framework controlling intellectual property assets in the relevant nations. Furthermore, in various corporate frameworks like that of spin-outs and joint ventures, IP assets play a significant role. Henceforth, it becomes important to ensure that each party to the contract receives a fair value for their assets in order to have a successful transaction. However, the paper hasn't focussed in depth about the significance which the IP assets hold in the cases of joint ventures. In conclusion, the role of IP in M&A transactions is critical, and it requires careful planning and execution. The valuation and integration of IP assets are essential, and due diligence practices are crucial in identifying potential risks and opportunities associated with IP assets. Comparative studies provide valuable insights into the intricacies and challenges of IP rights in M&A transactions, and the rational allocation of IP rights is necessary for other corporate transactions, such as spin-outs and joint ventures. As the global economy grows more competitive, the importance of intellectual property assets in corporate transactions is likely to grow, and businesses must have a clear grasp of the function of IP in these transactions.