Practice Guides

INDIA M&A

Fourth edition

Contributing editor
P M Devaiah

START READING

LEXOLOGY
Getting The Deal Through

About the Editor

P M Devaiah

Starlaw Partners LLP

P M Devaiah is managing partner at Starlaw Partners LLP. Headquartered in Bangalore, StarLaw is focused on private equity, venture capital, real estate, climate impact and data centre practices. Prior to starting the boutique law firm, he was a group general counsel with Adani Group and Everstone Group respectively.

Mr Devaiah has over 33 years' experience across a variety of industries, including telecommunications, power, IT services, fast-moving consumer goods, manufacturing, private equity, real estate and multimodal transport. In the past he has been associated with TATA Projects, Hindustan Unilever, TCI, BPL Group, Carlyle, ICICI Ventures and the Future Group in a variety of senior roles.

Mr Devaiah holds a master's degree in constitutional and administrative law (LLM) and a diploma in journalism from Mysore University. He also has a certification on late-stage buyouts from Harvard Business School. He was listed as one of the top general counsel in the 'Legal Powerlist 2020' presented by *Forbes India*.

devaiahm@gmail.com

Read more from this editor on Lexology

Published June 2023

4

Key IP Considerations in M&A Transactions

Manisha Singh, Mini Raman and Varun Sharma[1]

The rapid increase in the acquisitions of companies with innovative and emerging businesses and technologies has given rise to the need to identify and deal with key intellectual property (IP) considerations pertaining to such businesses and technologies. In such cases, IP is fundamental to the business being acquired and hence a key driver or even at times the sole purpose of the acquisition. The acquirers, therefore, must undertake an extensive legal due diligence on the target companies from an IP perspective.

In India, IP rights that have statutory protection comprise patents, designs, trademarks, geographical indications, protection of new plant varieties and semiconductor integrated circuit layout designs. Trade secrets do not have statutory protection, but they are protected under equity and contractual law.

In order to effectively complete the acquisition, the commercial objectives of the acquirer and the seller must be met. In an acquisition of an IP-driven business company, the objective of the acquirer would be to ensure that the business and the underlying IP can be commercially exploited post-acquisition. In this regard the acquirer will need the following confirmations:

1 Manisha Singh, Mini Raman and Varun Sharma are partners at LexOrbis.

- the title of the seller to the IP of the product is clear and unencumbered;
- there are no third-party rights over the IP that restrict its commercial use post-acquisition;
- the acquired IP is valid and enforceable in all jurisdictions that the acquirer intends to operate in;
- there are no third-party infringement claims over the acquired IP;
- the acquired IP covers in its scope the entire product or technology sought to be acquired; and
- the term of the IP protection covers the period of its commercial exploitation.

It would be the objective of the seller that the IP sold is of the business concerned and does not extend to its other business. In this regard the seller will need the following confirmations:

- that the scope of the IP covers the business or technology sought to be acquired and does not extend to technologies or businesses that are not part of the transaction, such as the background IP of the seller;
- the seller is not making assurances for any third-party IP such as open-code software or third-party licensed IP; and
- the seller does not assume risks for IP with inherent issues (eg, enforce-ability in a particular jurisdiction).

In light of the aforesaid objectives, the following are some of the key IP consid-erations that both the acquirer and the seller must keep in mind in the course of the acquisition transaction.

IP due diligence

An IP due diligence is required to be conducted on the target company and the technology sought to be acquired, which covers the following points.

Ownership of the IP in the business

The business of the target company being the crux of the acquisition it is fundamental that ownership in the IP in the business is clear, unencumbered and established in relation to legal registration documentation. In India, in this

Read this article on Lexology

regard, the acquirer must conduct a patent search to confirm that ownership in the technology or product and patents in the technology or products does in fact vest with the target company. Patent certificates must also be reviewed in order to ensure that the patent does in fact cover the entire technology sought to be acquired. Trademark and logo registrations or applications will also have to be reviewed and confirmed.

It is also necessary to examine whether the individuals involved in the creation of the IP have assigned the IP to the target entity. In many cases it is found that such individuals are no longer with the target company. In such scenarios it is necessary to examine whether the target company will still have the right (in the absence of IP assignment documents) to exploit the IP in the key business post-acquisition.

It is also necessary to examine whether employees or consultants of the target company involved in the development of the technology have assigned their IP to the target company either under their employment or consultant agreement or in relation to a separate IP assignment agreement. The scope of such assignment provisions will also have to be reviewed to establish that they cover the entire technology or products and derivative forms therefrom. It would also be necessary to confirm whether the work created by such employees or consultants are 'work made for hire' for the purposes of section 17 of the Indian Copyright Act 1957, as a result of which the ownership in the work vests with the target company and not with the employee or consultant.

In a cross-border acquisition, appropriate certificates of title as prescribed in that jurisdiction will have to be reviewed by the acquirer's counsel to confirm title to the key IP.

Unregistered IP

It is also important for the acquirer to understand the dependence on the business on non-registerable or non-patentable IP. In India, for instance, computer programs per se and algorithms are not patentable inventions.[2] Consequently, should reliance be placed by the target company on such computer programs

2 Section 3(k) of the Indian Patents Act 1970.

or algorithms, the implications of non-patentability may be severe and may even subvert the purpose of the acquisition.

Dependency on third-party IP

It is necessary to examine the dependence on the technology to any third-party-licensed IP. Factors that need consideration are, for instance, whether:

- the licence of such IP would be extended on the same terms to the acquirer;
- any acquisition of the technology would trigger any change of control provisions of the licensed IP; or
- there are any other restrictions or consent requirements from the licensor of such IP in the event of any acquisition.

IP litigation

The acquirer will also examine whether there are any third-party claims on the IP or any suits pertaining to infringement, ownership disputes, etc.

In India court filings are not public documents. Hence it is not possible to undertake a court due diligence to determine whether there are any such IP disputes. Reliance must, therefore, be placed by the acquirer on the documents provided by the target company and the statements made by the management of the target company in this regard. These statements may be limited by knowledge qualifiers and such qualifiers should be largely avoided by the prudent acquirer.

Territory

IP rights are territorial in nature. In other words, IP rights protected in one country do not protect the same IP in another country unless steps are taken in each country of concern to protect such IP. In cases where the acquisitions involve multiple territories or an acquisition has global ramifications, it is necessary to determine the territorial extent of IP.

It is important to determine the places or countries where the acquired IP is protected. In this regard, it becomes necessary to ensure that the acquired

IP is protected in the country of concern. Otherwise, although the acquirer would be paying significant consideration for transfer of IP under the acquisition, it would be open for free use by third parties in the country of concern. If an IP is not protected in a particular territory, there is a risk that any person can use such an IP in that territory without any hindrance and there could be no possibility of restraining such person. It is only if the IP is protected under statutory or equitable rights that the IP holder can enforce the rights against an unauthorised user.

Consideration

In India, consideration is one of the vital requirements to complete a contract. It is not sufficient that the amount of consideration is vaguely or implicitly incorporated in the agreement. Instead, it should be conspicuously present in the agreement.

Under Indian laws, an agreement regarding which rights in IP are transferred requires stamp duty to be paid to the government. The value of the stamp duty is proportional to the value of consideration mentioned in the agreement and varies from state to state. For example, in Delhi, the value of stamp duty for assignment of an IP right is 6 to 7 per cent of the value of the consideration. It is therefore necessary to clearly disclose the consideration amount in the agreement from which stamp duty can be determined.

If no consideration amount is mentioned in an agreement, stamp duty must still be paid. In such scenarios, the parties may decide the amount of stamp duty to be paid. However, the stamp duty once paid for an agreement that does not disclose the consideration amount would determine the consideration amount of the agreement and the parties cannot claim more than the consideration amount proportional to the stamp duty so paid. In other words, the consideration amount would be calculated in reverse from the stamp duty paid by the parties and such amount would be final between the parties. The parties are not allowed to assess a low stamp duty and then later claim a higher consideration amount if no such amount has been initially mentioned in the agreement.

Representations and warranties related to IP

The IP-related representations and warranties in the acquisition of companies with IP-centric business must cover the following aspects.

Ownership

The most critical of the representations and warranties pertaining to IP are the seller's representations and warranties to title or ownership in the IP. The acquirer will want comfort that the seller is the absolute owner of the IP to each component of the technology and such ownership is not fettered, encumbered or subject to third-party rights. The seller would also want to ensure that there is nothing that restricts it from exploiting the IP in the technology to the fullest. Any such restriction will reduce the value of the technology and may affect the acquisition price that the acquirer is willing to pay for the target company and the technology concerned.

Third-party rights

The acquirer will also examine through the due diligence whether the seller has the right by licence or otherwise to use any IP owned by third parties that is material to the technology or the business of the target company. The acquirer will have to examine whether these licences or contracts will continue to operate in the event of a merger or change of control of the target company. The acquirer will have to examine the implications of the termination of these licences and contracts in the event of a merger or acquisition and its subsequent impact on the business of the target company post-acquisition.

The lack of continuity of these licences and contracts in the event of a merger or acquisition of the target company will affect the acquisition price.

Non-infringement of IP and disputes

The acquirer will also seek comfort that:

- the IP of the target company does not infringe the IP of third parties;
- no third-party IP is infringing upon the target company's IP; and
- there are no infringement disputes regarding the target company's IP.

Read this article on Lexology

Indemnifications related to IP

As in the case of other indemnification provisions, the acquirer may insist that the pending IP claims or pending IP litigation be the subject of special indemnifications to protect the acquirer against subsequent substantial loss.

The seller may limit such indemnifications using standard indemnification limitation mechanisms such as capping the indemnity amount or limiting the time period for indemnification claims.

Ancillary documentation

In addition to the acquisition document, it may also be necessary to execute the following types of ancillary documentation:

- IP assignment agreements: where the creators of the IP separately hold the concerned IP; and
- trademark licence agreements: where the acquirer intends to use the trademarks of the seller, a robust trademark licence agreement with protective provisions may be entered into by the parties.

With rampant growth in industry and foreign investments in India, mergers and acquisitions have increased manifold. Although such arrangements contain clauses of assignment or transfer or licensing of IP rights, there is one more step under Indian laws to complete such transfer. That additional step is recordation of assignment or licence with the concerned IP authority. For instance, in case of patents, the IP authority is the Patent Office and, for trademarks, it is the Registrar of Trademarks. Only after a copy of the assignment deed or licence agreement is submitted and recorded will the transfer of IP right be complete.

Read this article on Lexology

Manisha Singh
LexOrbis

Manisha Singh is the founding partner of LexOrbis. Manisha is known and respected for her deep expertise in prosecution and enforcement of all forms of IP rights and for strategising and managing global patents, trademarks and designs portfolios of large global and domestic companies. She is involved in a large amount of intellectual property litigation, with a focus on patent litigation covering all technical fields – particularly pharmaceuticals, telecommunications and mechanics. She is an active member of many associations such as AIPLA, AIPPI, APAA, FICPI, INTA and LES, and is actively involved in their committee work. She is an active author and regularly writes articles and commentaries for some of the top IP publications.

Read more from this author on Lexology

Mini Raman
LexOrbis

Mini Raman is a corporate and transaction lawyer with 20 years of experience in M&A, private equity and venture capital transactions and in general corporate and commercial law. She has represented both investors and the promoters in different instances. She has also represented clients in different industrial sectors such as e-commerce, IT, facilities services, telecommunications, hospitals, retail, etc. She regularly provides expert advice on the setting-up of businesses and investing into India. She has advised on various funds and

Read this article on Lexology

companies regularly on complex issues in Indian corporate, commercial and transaction law.

Read more from this author on Lexology

Varun Sharma
LexOrbis

Varun Sharma holds a BTech degree in electronics and communications and a degree in law from Delhi University. Particular to the field of IP rights, his experience includes drafting, filing and prosecuting patent, trademarks, design and copyright applications for various multinational companies. He has appeared before various controllers and examiners of the Indian Patent Offices and attended official hearings and interviews in more than 450 patent matters. Apart from his aforementioned practice domains in India, Varun has also worked on the prosecution of various patent applications before the US Patents and Trademarks Office and European Patent Office.

Read more from this author on Lexology

Read this article on Lexology

LexOrbis

709-710 Tolstoy House
15-17 Tolstoy Marg
New Delhi 110001
India
Tel: + 91 11 2371 6565
manisha@lexorbis.com
mini@lexorbis.com
varun@lexorbis.com
www.lexorbis.com

Read more from this firm on Lexology

Read this article on Lexology

RETURN TO START