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INTELLECTUAL PROPERTY DUE DILIGENCE: A CRITICAL FACTOR IN MERGERS AND ACQUISITIONS TRANSACTIONS

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ABSTRACT:

In today's business environment, Intellectual Property Rights Due Diligence (IPRDD) has gained significant importance, especially in mergers and acquisitions (M&A). With intellectual property often holding more value than physical assets, organizations are placing greater emphasis on thoroughly assessing these intangible resources. This paper explores the detailed process of IPRDD, highlighting its vital role in uncovering, confirming, and handling intellectual property assets throughout M&A deals. Mergers and acquisitions (M&A) are vital for strategic business growth, yet they often involve complex challenges, especially around intellectual property (IP) assets. This article explores the critical role of IP in M&A transactions, focusing on how companies evaluate, secure, and transfer these intangible assets during the due diligence process. This study examines both successful and unsuccessful mergers and acquisitions to identify recurring legal hurdles and highlight best practices in IP due diligence that support better-informed decisions. The goals of Intellectual Property Rights Due Diligence (IPRDD) are diverse—ranging from pinpointing key IP assets and confirming rightful ownership, to analyzing potential infringement threats and investigating any current or unresolved legal disputes. This paper examines the growing importance of intellectual property in mergers and acquisitions, spotlighting major cases such as NVIDIA's failed acquisition of Arm and the delayed Qualcomm-NXP deal. These examples illustrate how inadequate IP due diligence can lead to serious legal and financial consequences. The discussion also highlights the vital role of legal counsel in aligning due diligence efforts with industry standards to detect potential risks that may impact deal outcomes.

The research further explores key challenges in IP due diligence, including the complexity of IP laws, overlapping ownership issues, and the accelerating pace of technological change. It outlines the legal implications of unclear ownership, restrictive licensing terms, and regulatory gaps. To address these, the paper recommends actionable strategies such as conducting

thorough IP audits, involving IP experts, drafting clear transfer agreements, and ensuring legal compliance.

The findings promote a proactive approach to IPRDD, encouraging companies to rigorously assess their IP portfolios to reduce risk and improve M&A success rates. Following these practices enables more accurate valuation and stronger protection of IP assets.

We can say that the study emphasizes that intellectual property plays a pivotal role in shaping the success of M&A transactions. A structured, strategic IPRDD process not only helps preserve business value but also supports long-term innovation and growth in an increasingly digital economy.

INTRODUCTION:

In today's increasingly digital and innovation-driven economy, Intellectual Property Rights Due Diligence has become a critical component of business transactions, particularly in mergers and acquisitions. As intangible assets, such as software, brand identity, proprietary technology, and trade secrets continue to surpass physical assets in value; businesses must evaluate their IP portfolios with the same scrutiny as financial or operational assets. IPRDD is no longer a routine legal formality; it is a strategic exercise aimed at identifying valuable assets, uncovering potential liabilities, and informing risk-conscious decision-making.

This paper explores the essential role of IPRDD in M&A transactions, emphasizing its growing importance in assessing the true worth of a company. By examining real-world cases, such as NVIDIA's failed acquisition of Arm and the delayed Qualcomm–NXP merger, the research highlights how inadequate IP assessment can result in significant legal and financial setbacks. These cautionary tales illustrate how ownership disputes, regulatory barriers, and licensing complexities can jeopardize even high-value deals.

Key challenges in conducting IP due diligence include unclear ownership rights, overlapping licenses, jurisdictional variations in IP law, and the ever-accelerating pace of technological change. To address these, the paper proposes a practical framework involving comprehensive IP audits, involvement of domain experts, clear contractual agreements and rigorous regulatory compliance reviews.

Ultimately, the study advocates for a proactive and well-integrated IPRDD strategy, one that aligns legal, technical, and commercial considerations. Such an approach not only mitigates legal risks but also strengthens the long-term value of M&A deals. As businesses continue to leverage intellectual property for competitive advantage, effective IPRDD emerges as a cornerstone for successful and sustainable transactions in the global digital economy.

RESEARCH METHODOLOGY:

This study adopts a qualitative research approach to explore the role of intellectual property in mergers and acquisitions (M&A). The analysis draws from a combination of case studies, legal evaluations, and insights from industry-specific reports to understand the practical implications of IP in transactional settings. Primary data sources include legal agreements, corporate disclosures, and interviews conducted with professionals actively involved in M&A and intellectual property management. Secondary sources such as academic literature, published books, and reliable media coverage support and contextualize the findings. By examining patterns across both successful and failed M&A deals, the study aims to uncover common legal challenges and outline effective due diligence practices that can enhance decision-making in future transactions.

OBJECTIVES OF INTELLECTUAL PROPERTY RIGHTS DUE DILIGENCE:

The major objectives of IPRDD include:

- **To Identify Relevant IP Assets** - The primary objective of IPRDD is to identify all intellectual property assets owned¹, used, or claimed by the target company. This includes patents, trademarks, copyrights, trade secrets, proprietary software, domain names, and other intangible assets that contribute to the company's value and operations.
- **To Verify Legal Ownership and Rights** - A key goal is to confirm the legal ownership and enforceability of the identified IP assets. This involves reviewing documentation such as assignment deeds, registration certificates, and licensing agreements to ensure clear and undisputed title or lawful usage rights.

¹ Edwards, M. (n.d.). *Intellectual property due diligence in cross-border mergers and acquisitions*. Michael Edwards.

- To Review Licensing and Contractual Arrangements - IPRDD aims to evaluate the scope, terms, and conditions of existing licenses and other contractual arrangements related to the use or transfer of IP assets. This includes assessing whether any third-party rights or restrictions could impact the acquirer's control or future use of the IP.
- To Assess Infringement Risks and Liabilities² - Another major objective is to examine the risk of intellectual property infringement. This includes identifying any instances where the company's IP may have been infringed upon, as well as any potential violations the company may have committed against third-party IP rights.
- To Evaluate Existing or Pending IP Disputes - IPRDD seeks to uncover any ongoing, past, or potential litigation, opposition proceedings, or enforcement actions involving IP assets. This helps in understanding the legal exposure and possible financial or reputational consequences of the transaction.
- To Analyze Jurisdictional and Regulatory Compliance – An essential goal is to assess the IP compliance environment across relevant jurisdictions, especially in cross-border transactions. Different countries have varying legal standards regarding ownership, assignment, and protection of IP assets, which can significantly influence deal structure and enforceability.
- To Ensure Smooth Transfer of IP Rights - IPRDD is intended to facilitate the seamless transfer of intellectual property rights to the acquiring party, free from encumbrances or undisclosed liabilities. It helps ensure that the buyer can fully exploit and protect the IP post-transaction.
- To Support Accurate Valuation and Strategic Decision-Making - By providing clarity on the ownership, scope, and risks associated with IP assets, IPRDD supports more accurate business valuations and allows decision-makers to evaluate the strategic and financial impact of the IP portfolio on the deal.

MAIN COMPONENT OF THE PAPER:

Current Scenario of the Problem

In today's mergers and acquisitions (M&A) environment, intellectual property (IP) is increasingly recognized as a vital strategic asset. Companies are beginning to understand that the strength and structure of their IP portfolios can significantly influence both the valuation

² **Bosch, M. C., & Burgy, A. L.** (2006, June). *Demystifying IP due diligence. Managing Intellectual Property*. Finnegan, Henderson, Farabow, Garrett & Dunner LLP.

and negotiation phases of a deal. However, when IP due diligence is not thoroughly conducted, it can lead to unexpected legal challenges, ranging from disputes over ownership and infringement allegations to regulatory complications. High-profile cases, such as the collapse of NVIDIA's attempt to acquire Arm and the delays in the Qualcomm–NXP merger, serve as clear reminders of the importance of conducting in-depth IP assessments during M&A transactions.

- **NVIDIA–Arm Case Study:** NVIDIA's planned \$40 billion acquisition of Arm Holdings faced intense scrutiny from regulators and industry leaders. Concerns over potential monopolistic behavior and the deal's possible impact on competition and innovation in the semiconductor sector ultimately led to its collapse. This case highlights the critical need for understanding the regulatory landscape and recognizing how intellectual property ownership can influence the outcome of major M&A transactions.
- **Qualcomm–NXP Case Study:** Qualcomm's proposed \$44 billion acquisition of NXP Semiconductors encountered significant delays, largely due to regulatory challenges, particularly from Chinese authorities³. The deal raised concerns around national security and the potential impact on competition within the global semiconductor industry. This example illustrates how regulatory hurdles, especially those linked to intellectual property considerations, can heavily influence both the timing and success of M&A transactions.

The role of Due Diligence Counsel

When preparing a due diligence request list, buyer's counsel must keep in mind that the seller's disclosures may not always paint a complete picture of the target company's intellectual property holdings. It's important to understand the underlying purpose of the transaction and actively seek context from both sides⁴. Aligning the process with prevailing market norms and practices can help uncover potential concerns that need to be resolved either before or after the deal closes.

In jurisdictions like India, where due diligence efforts are often centralized under one lead partner, taking a well-rounded approach is the key. By combining insights from financial

³ Ciolli, J. (2018, July 26). *Qualcomm, NXP Semiconductors deal collapse example of trade war impact*. *Business Insider*.

⁴ Morgan Lewis. (2022, April). *Key considerations for intellectual property due diligence in mergers and acquisitions*. Morgan Lewis.

audits, legal checks, and IP reviews, the team can ensure a more cohesive evaluation. This integrated method helps identify risks early and ensures that all parts of the transaction work together smoothly.

IDENTIFYING THE PROBLEM & WHY IT EXISTS:

One of the biggest hurdles in conducting IP due diligence during M&A transactions is the complexity of intellectual property laws and the wide range of IP assets involved. Companies often face difficulties in accurately assessing the true worth of their IP portfolios, which can lead to misjudgments in the overall valuation of the deal. The process of transferring IP rights becomes even more complicated when there are overlapping ownership claims, existing licensing arrangements, or potential legal disputes. These challenges are further intensified by the rapid pace of technological change, which can render certain IP assets obsolete or significantly reduce their value over time.

In modern mergers and acquisitions, IP due diligence plays a far broader role than simply listing assets, it also involves a deep dive into technology-related factors. The core objective is to identify which IP rights the target company owns and determine their actual worth. This involves reviewing how the company manages and retains key documents, its IP filings across different countries, any pending or expected legal issues, its enforcement strategies, and how well it adheres to local and international IP regulations.

When a deal involves companies with operations in multiple countries, understanding the specific IP laws in each jurisdiction becomes essential. For instance, in Canada, creators retain moral rights due to the lack of a formal “work for hire” concept⁵, which can complicate ownership claims. Similarly, in India, software is protected only by copyright⁶, not by patents limiting the types of protection available. These jurisdictional differences can significantly influence how intellectual property is evaluated, transferred, and protected during an M&A deal.

Assessing IP Quality and Integrity: Assessing the strength and authenticity of intellectual property assets is a key step for any buyer, whether in domestic or cross-border M&A deals. A clear understanding of how the IP was created, developed, and transferred helps identify hidden

⁵ Origiin IP Solutions LLP. (n.d.). *Software patents: Myth and reality*. Origiin

⁶ Amar-VR Law. (2023, January 12). *Work-for-hire vs. IP assignment: What's the difference?* Amar-VR Law.

risks. In countries like India, for instance, poor documentation of IP ownership or transfers can create serious complications during a deal⁷. Challenges also arise when IP is shared with third parties or co-owned, especially in carve-out transactions, where the intellectual property in use may belong to or be accessed by entities not included in the acquisition⁸. Such situations demand close scrutiny to avoid future conflicts.

LEGAL CHALLENGES:

- **Ownership Disputes:** Conflicts can arise when multiple parties claim rights to the same intellectual property asset, leading to uncertainty over ownership. Such disputes often escalate into lengthy legal battles that can delay or even derail M&A transactions. In some cases, the acquiring company may inherit these unresolved IP conflicts from the target business, potentially impacting both the valuation of the deal and its overall attractiveness.
- **Licensing Agreements:** In M&A transactions, existing licensing agreements can complicate the transfer of intellectual property. The acquiring company must carefully review and, if necessary, renegotiate any licenses the target has granted to third parties to ensure it secures the proper rights to use and control the IP following the acquisition.
- **Regulatory Compliance:** Ensuring compliance with intellectual property laws and regulations is essential in any M&A transaction. Failure to follow these legal requirements can lead to serious consequences, such as financial penalties, legal restrictions, or even the blockage of the deal itself, ultimately putting the success of the merger at risk.

POSSIBLE SOLUTIONS TO THE PROBLEM:

To address the challenges associated with IP due diligence in M&A transactions, corporations can adopt several best practices:

- **Comprehensive IP Audits:** Conducting a detailed audit of intellectual property assets before entering negotiations helps uncover potential risks and liabilities. This process involves reviewing ownership claims, active or pending legal disputes, and existing licensing agreements. A well-executed audit offers clearer insight into the target

⁷ LexOrbis. (2024, January 8). *India M&A 2024: Key IP considerations in M&A transactions*. LexOrbis.

⁸ Jus Corpus. (2022, July 18). *IPR due diligence in M&A transactions*. Jus Corpus.

company's IP landscape, allowing buyers to better understand how these factors could influence the value and structure of the deal.

- **Engaging IP Experts:** Bringing in both legal and technical experts during the due diligence process can provide valuable insights into the risks and true worth of a company's intellectual property. These professionals are equipped to assess the robustness of the target's IP portfolio and can help identify potential liabilities that may not be immediately visible, ensuring a more informed evaluation of the deal.
- **Clear IP Transfer Agreements:** Drafting detailed and transparent agreements that clearly outline the terms of intellectual property transfer is the key to minimizing conflicts after an acquisition. This includes addressing existing licensing arrangements and ensuring that all necessary rights are properly assigned. Well-defined agreements can help prevent confusion and legal complications once the deal is finalized, promoting a smoother post-transaction transition.
- **Regulatory Compliance Checks:** To steer clear of legal complications during a merger, it's essential for companies to ensure full compliance with applicable intellectual property laws and regulations. This involves conducting a careful review of the relevant legal frameworks to confirm that every aspect of the transaction meets statutory requirements, helping to safeguard the deal from future legal challenges.
- **Reviewing invention assignment agreements:** It's essential to ensure that invention assignment agreements use clear and legally valid language that satisfies the requirements of the relevant jurisdiction. This helps establish a solid chain of ownership for the intellectual property involved.
- **Analyzing employment and licensing contracts:** agreements, as well as any licensing arrangements⁹, should be carefully reviewed to confirm that they comply with the local IP laws where the target company operates. These contracts must effectively safeguard the company's rights and interests in its intellectual property.
- **Evaluating Trade Secret protections:** In countries like India, where there is no formal legislation for trade secrets¹⁰, it becomes especially important to assess how confidentiality is maintained, through non-disclosure agreements, contractual restrictions, and internal security measures.

⁹ Nishith Desai Associates. (2020). *Key issues and considerations for IP-centric transactions*. Nishith Desai Associates.

¹⁰ Lexology. (2023, March 14). *Intellectual property due diligence in mergers and acquisitions*. Lexology.

- Scrutinizing software licenses: It's critical to examine the use of open-source and third-party software to identify licensing obligations or potential compliance risks that could affect the acquirer's ability to use or commercialize the product.
- Requesting core IP Documentation: Due diligence teams should routinely request access to key intellectual property records such as patent filings, trademark registrations, copyright certificates, trade secret documentation, domain names, software code, and personal data inventories. These assets play a vital role in the overall valuation and risk profile of the deal.

Addressing Potential Arguments to these Solutions -

While some may view comprehensive due diligence, thorough IP audits and bringing in experts as expensive and time-consuming, the reality is that these efforts can save a company from much bigger problems down the line. Investing upfront in proper due diligence helps avoid legal troubles and ensures the IP is accurately valued, both of which are crucial for a successful deal. A thorough understanding of the target's IP landscape is essential for ensuring a successful transaction. Plus, with modern tools like data analytics and tech-driven platforms, the entire process can be made faster and more affordable than ever before.

RECOMMENDATIONS AND OWN CONCLUSION:

Intellectual property plays a crucial role in the success of mergers and acquisitions, and its importance should never be underestimated. For companies aiming to avoid legal setbacks that could jeopardize a deal, placing strong emphasis on IP due diligence is vital. By adopting best practices, such as conducting in-depth audits, involving skilled professionals, ensuring clear and well-drafted agreements, and staying compliant with relevant regulations, businesses can better manage the complexities tied to intellectual property in M&A. As companies continue to depend more heavily on digital and intangible assets, conducting detailed evaluations of their intellectual property portfolios has become more important than ever. To confidently manage the challenges of IP in mergers and acquisitions, businesses should follow key best practices, such as carefully reviewing IP assignment documents, analyzing employment agreements, and assessing how trade secrets are protected. These steps help ensure a smoother and more secure transaction process. Ultimately, a proactive and thorough approach to IP due diligence not only protects business interests but also increases the likelihood of a smooth and successful transaction.

CONCLUSION:

Intellectual property is playing an increasingly pivotal role in today's evolving mergers and acquisitions landscape. As companies aim to leverage IP assets for a competitive advantage, conducting thorough due diligence has become more important than ever. Understanding legal challenges and applying industry best practices can help minimize risks and improve the likelihood of a successful deal. The failed NVIDIA–Arm deal and the delayed Qualcomm–NXP merger serve as clear reminders of what can go wrong when IP isn't properly assessed. To foster long-term growth and innovation, businesses must treat intellectual property as a strategic asset, prioritizing its protection and smooth transfer throughout the M&A process.

