# Intellectual Property Liability Considerations for M&A Transactions

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Mergers and acquisitions typically require extensive financial and legal disclosures, due diligence, and complex contract language to protect buyers from legal issues that may arise from the purchase. Potential liability arising from intellectual property issues is a significant factor to consider in any M&A transaction.

There following are a few key considerations to negotiate during any corporate transaction.

**(1) Transferring Ownership of Existing Trademarks, Copyrights, and Patents.**

Often a purchaser will acquire a company that will continue to operate as it was, continuing to use its existing trademarks, copyrights, or patents. Each of these intellectual property rights must be evaluated carefully and negotiated as part of the transaction. The purchaser should investigate any existing infringement claims against the seller prior to acquiring ownership of any marks or IP rights. Additionally, the purchaser will be required to appropriately register the transfer, and continue enforcing these rights with take-down notices and any other necessary legal means or risk losing the ability to enforce them.

**(2) Transferring Ownership of IT Assets, Including Copyrighted Software**

Depending on the nature of the transaction, the purchasing company may choose to dissolve the target company and dispose of its assets. In some instances, the purchaser chooses to retain the assets.

If the purchaser chooses to retain the IT assets, it assumes the responsibility of ensuring that all software complies with the relevant licensing agreement or risks potential copyright infringement liability. There are a number of steps the purchaser should take to mitigate potential exposure, including conducting an internal audit of the new IT assets, evaluate any existing licenses, and determine whether any remediation is required in order to become compliant.

Some larger companies have Enterprise agreements with Microsoft and other software publishers that may include affiliates that are acquired after the agreement is signed. The purchaser will need to determine whether the software on its newly acquired assets fall within the scope of any Enterprise agreement and take the appropriate steps to ensure the software is included in the user counts for any true-ups required pursuant to the agreement.

Even if a diligent audit and assessment of the company’s network reflects no potential claims for copyright infringement, the purchasing company may still face hurdles to properly transferring ownership of the copyrighted software.

Many software publishers include a provision barring the transfer of ownership of a software license in the license agreement. Others allow the transfer, subject to written consent from the software publisher. This final step is key to ensuring the assets acquired during the transaction are properly licensed. In the event of a software audit, the purchasing company will be required to prove ownership of the software installed on all of its computers and servers. Therefore, it is important that the transfer of ownership is documented with the software publisher for recordkeeping.

Alternatively, some purchasing companies choose to avoid the time and expense of a full audit of the newly acquired assets, and instead reformat the computers and install a predetermined set of software. Although this method can be effective if properly managed, it is important to verify that there are sufficient licenses for all of the installations.

**(3) Indemnification Against Existing Claims**

In addition to various potential legal issues that may arise in a transaction, an M&A contract should contemplate any potential claims or include who will be responsible for any existing intellectual property claims. Depending on the size of the company and the scope of non-compliance, copyright infringement damages could soar into the 7 figures.

If a copyright (or trademark or patent) infringement claim is known at the time of the purchase, it is critical to obtain an independent valuation of the potential exposure by an expert. Correctly calculating estimated damages is incredibly complex. The most prudent approach is to engage an expert to conduct its own analysis of the raw data, licenses, or legal issues and prepare an independent estimate for resolving the claims.

**(4) Escrow Accounts To Resolve Claims**

Once the purchaser is aware of the estimated liability of any potential or existing claims, it may choose to require that a specific sum of money be placed in escrow in order to resolve the matter. Escrow contracts may be a valuable tool for a purchaser seeking to mitigate risk and liability from intellectual property liability or any unforeseen risks arising from the sale.

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