

**JAMBAR CLE Weekend Seminar 2012**  
**Intellectual Property in Mergers and Acquisitions: Practical tips for Commercial and  
Litigation Lawyers**

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## **INTRODUCTION**

The parties to a merger or acquisition transaction involving the transfer of intellectual property (IP) assets will usually be focused on determining a mutually agreeable transaction structure that facilitates a comprehensive due diligence process and an 'as short as possible' closing schedule.

There are two main types of transactions in which IP rights are crucial:

1. Asset Purchase Transactions; and
2. Sale and Purchase of Shares Transactions

An Asset Purchase Transaction involves the purchase of a target company's assets such as a brand, patent or a system of production. The Purchaser will acquire the assets but not the shares of the target company. In a Sale and Purchase of Shares Transaction the shares in the target are transferred. The transfer of the IP is really subsumed under the general transfer structure and as such there is no requirement for a formal assignment of the intellectual property rights.

Some of the key issues that will weigh in on the parties' choice of transaction and inform their expectations include the number of consents and/or ancillary agreements needed to transfer rights of use from the Vendor to the Purchaser. By way of example, under an asset purchase the selection of rights out of a general IP portfolio of the target company would require far more assignments and consents from varying individuals as opposed to a share transfer. The parties will also consider the tax implications of the transaction and the ability of each party to give and receive sufficient representations and warranties to solidify post-closing rights and indemnities where pre-closing due diligence is handicapped.

The IP rights which the target may possess include trade marks, copyright, patents, know-how and designs. There are also related rights under employment agreements, research and development contracts and employment agreements under which intellectual property issues will arise.

## **I. ESTABLISHING THE TARGET COMPANY'S INTELLECTUAL PROPERTY (IP) PORTFOLIO**

### **Step 1: Identifying IP Assets Utilised by the Target Company**

One of the key pre-transaction steps is to establish the scope of IP assets held or potentially held by the target company. It is important to ascertain both the IP assets that are in the public domain as well as the back-office IP that may not have been registered. These should then be categorized under the general headings of IP for a more comprehensive outlook on the portfolio.

### **Step 2: Categorising the Target Company's IP Assets**

**Trade Marks:** A trade mark (or 'trademark' (US) and 'trade-mark' (Canada) is a word, name, symbol, slogan or device or a combination of such elements used to identify and distinguish an individual's or entity's goods or services from those of others and represents the goodwill of a business. It is used to indicate the origin and quality of the goods or services and registration of the mark affords the proprietor exclusive right to its use. The proprietor can prevent others from using a mark that is the same or similar in a manner likely to cause confusion among consumers. The current trademark system in Jamaica is territorial as registration in this jurisdiction will only provide protection locally. A registered trade mark right is valid for 10 years and can be continuously renewed for subsequent ten year periods, provided however, that if the proprietor does not exercise continuous and appropriate use of the mark it can be subject to revocation or cancellation. Ownership can also exist in a trade mark at common law through bona fide uninterrupted usage of a mark in relation to goods or service for which the mark has gained a reputation though such a mark is not registered.

**Domain Names:** A domain name is a series of alphanumeric strings separated by periods serving as an address for a computer network connection and identifying the owner of the address.<sup>1</sup> Domain names are organized right to left, with general descriptors to the right and specific descriptors to the left. These descriptors are called "domains".<sup>2</sup> A domain name can also be registered as a trade mark.<sup>3</sup>

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<sup>1</sup> Source: [www.Dictionary.com](http://www.Dictionary.com)

<sup>2</sup> The "top level domains" (TLD is to the far right of a domain name for example '.com or .net or .org ' Mid level domains are in the middle this will usually be the name of your company or a product/service name. The machine name, often "www", is to the far left.

<sup>3</sup> Domain names are registered in the Domain name registry from which it is purchased and is often registered in the name of the person carrying out the registration. If this is typically done by an employee of the company it will be important for the internal policies of the company to require that such employees release and assign all proprietary rights in same to the company. and action can be taken against the owner of a domain name to

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**Patent:** Letters patent are granted for inventive discoveries and are exclusionary rights granted by the Governor General on behalf of the Government<sup>4</sup>. The Letters Patent entitle the owner of the patent to exclude others from making, using, selling, offering to sell, and importing any products covered by a claim of the issued patent.<sup>5</sup> The inventor of the patented invention is entitled to be registered as proprietor thereof.<sup>6</sup> The current patent registration system in Jamaica is territorial and registration in this jurisdiction will only provide protection herein.<sup>7</sup> Letters Patent are granted for a period of fourteen (14) years. However, the Governor General has the discretion to extend this period upon application for a further seven (7) years. After this time has run the patent now becomes a part of the public domain and available for public use and application.<sup>8</sup>

**Copyright:** Copyright protects original works of authorship fixed in a tangible medium of expression from which it can be perceived, reproduced or otherwise communicated either directly or indirectly. Copyright works fall into four (4) general categories namely literary, artistic, musical or dramatic works. Literary works include all works expressed in print or writing other than musical or dramatic works; a dramatic work is a work of action that is capable of being performed; a musical work is defined as a work consisting of music, exclusive of any words or action intended to be sung, spoken or performed with the music. An artistic work relates to works falling into one of the following three (3) categories: (i) a graphic work, photograph, sculpture or collage, whether the work is of artistic quality or not; (ii) a building or a model of a building, whether the building or model is of artistic quality or not; (iii) a work of artistic craftsmanship to which neither (i) or (ii) applies. The copyright in any literary, artistic, dramatic or musical work expires at the end of fifty (50) years from the calendar year in which the author dies.<sup>9</sup>

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<sup>4</sup> Section 3, Patent Act of Jamaica

<sup>5</sup> Wells, J. Douglas, 'Intellectual Property Rights and Ownership/ Vendor Issues', 92<sup>nd</sup> Annual International Supply Management Conference, May 2007

<sup>6</sup> and where the inventor is an employee it will be important for the internal policies of the company to require that such employees release and assign all proprietary rights in same to the company.

<sup>7</sup> Section 27, Patent Act of Jamaica; It is to be noted that under the Patent Act any new improvement or adaptation of an invention is entitled to its own protection. The Act does not explicitly prohibit Letters Patent for improvements being granted to the original patent holder but there is the obstacle of 'obviousness' to get over in fulfilling criteria for a grant of patent for improvements in that circumstance.

<sup>8</sup> Section 3, Patent Act; Under the Patent Act a key criterion for grant of Letters Patent is that the invention shall have 'public utility'.

<sup>9</sup> The period of protection will change depending on the type of copyright work in question. In the case of works considered to be 'entrepreneurial works' which include, films, sound recordings and broadcasts copyright will expire 50 years after they are first made public whether through publication transmission or inclusion in a cable programme service respectively.

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**Designs:** Under the Designs Act, a design is defined as any creation of manufacture or any substance artificial or natural or partly so applicable to any article for the pattern, shape, configuration or ornament thereof by whatever means applied whether by printing, sewing, engraving, modeling etc. Under section 7 of the Act, a registered design is also entitled to copyright protection and the person or entity that has registered the design is thereby assured an exclusive right against unauthorized copying or imitation of the design by third parties. A registered design will benefit from copyright protection for fifteen (15) years from the date of registration of the design.

**Trade Secret/Know How:** A trade secret is any information that can be used in a business that is sufficiently valuable and secret to afford an actual or potential economic advantage over others. There is no specific law geared towards the protection of trade secrets and it will, therefore, be incumbent upon the target company to put in place confidentiality policies, procedures and documentation to ensure trade secret protection.<sup>10</sup> The duration of enforceability of trade secrets rights will depend on the terms and conditions of the relevant agreements covering it. In the absence of a clause protecting the trade secret to the benefit of the employer, the court will imply a period it considers as 'reasonable' in the circumstances bearing in mind the nature of the secret information involved and its objectively assessed value to the industry in which the target company operates.

### **Restrictive Covenants and Confidentiality Agreements**

The ability to maintain a trade secret and vest it as property depends on the restrictive covenants and confidentiality agreements in place. These covenants generally include grants of exclusive rights and agreements not to pursue a particular trade or field of use. Case law indicates that when considering the reasonableness of a restrictive covenant the courts look at the following:

- i. If the proposed conduct would breach the restrictive covenant.
- ii. If the employer had trade secrets it was entitled to protect by restrictive covenant.
- iii. If the scope of the activities restrained by the covenant was reasonable.
- iv. If the geographical extent of the restraint was reasonable, having regard to the nature of the business.

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<sup>10</sup> The right to protection of trade secrets is contemplated under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) to which Jamaica is a party. <sup>10</sup> It provides that any natural or legal person shall have the possibility of controlling the disclosure of secret information which has commercial value where reasonable steps have been taken to maintain the secrecy of same. Trade secrets usually include product formulations, business methods and the like.

v. If the duration of the restraint was reasonable.

In Mossel (Jamaica) Limited v Michael Thrush, Claim No. 2004 HCV 2087 Supreme Court delivered a judgment following an application for an injunction by a former employer to enforce a restraint of trade clause against a former employee. Sykes J. at para. 37 noted:

*“...there is case law that suggests that even a badly drafted restraint clause can be saved. In The Littlewoods Organisation Ltd v Harris [1978] 1 All E R1026 a wide clause was interpreted to give effect to the intention of the parties as found by the court. Littlewoods was an application of Haynes v Doman [1899] 2 Ch 25. Perhaps I should point out that in the Littlewoods case Lord Denning MR said that the law should have regard to the reality of business in this age of multinational corporations (see page 1036e).”*

The following summary of the Littlewoods case was taken from the UK Court of Appeal case of Greer v Sketchley Ltd [1978] EWCA Civ 8:

*“In a way, as the Littlewoods case illustrated, it is often difficult to sort out what is confidential and what is not. Sometimes it is permissible to make an agreement, as in that particular case, saying that the man is not to go to a rival concern for 12 months. That is what happened in the Littlewoods case. The Great Universal Stores in effect approached Mr. Harris and offered him all sorts of better terms and induced him to go to them. That was a breach of the restrictive covenant which Littlewoods had expressly made saying that Mr. Harris was not to go to their rival the Great Universal Stores for 12 months. That clause was held valid because it was the one way of protecting the position.”*

There is however a later case of J. A. Mont (UK) Ltd v Mills [1993] IRLR 172 which takes the usual ‘unsympathetic approach’ to widely drafted restrictive covenants contrary to the position taken in Littlewoods.

The Purchaser should therefore take steps to review all IP related contracts, especially technology related contracts, entered into by the target company to determine whether any restrictive covenants have been agreed and the period of restriction.

## **II. “I OWN IT...IT’S MINE” – IP OWNERSHIP ISSUES ARISING IN MERGERS AND ACQUISITIONS**

### **Author/Creator v. Owner**

When dealing with IP it is important to know who is capable of being an owner of IP. There is a legal presumption that the author or creator of IP is the owner and is exclusively entitled to exploit it for economic gain. It is, therefore, important that where parties intend to rebut this

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legal presumption this is clear and unambiguous. Section 22 (1) of the Copyright Act provides that the author of protected work is the first owner of any copyright in that work unless there is an agreement to the contrary. Under section 9(1) only the owner of copyright has the right to copy, perform or display in public, make adaptations, broadcast or record the copyrighted work or to authorize third parties to so deal with the work.

The Designs Act takes a similar approach whereby the author/designer is considered to be the proprietor of the design unless it can be proven that the design was created on behalf of an approved society or some other person for valuable consideration in which case that person would be considered proprietor.<sup>11</sup>

Under the Patent Act, the actual inventor of the invention has the right to be recorded as the proprietor of same. This presumption can be rebutted where the right has been transferred to a third party either by a recorded assignment or upon death or insolvency<sup>12</sup>. The Patent system in Jamaica operates on a 'first-to-file' basis whereby the first person to file an acceptable application for a patent is granted proprietary rights. This is presumably to avoid having to consider issues related to the first person having the idea or the first person to reduce the idea to a working model.<sup>13</sup> It is debatable that it is really a first to invent (or discover) system, since the applicant has to declare he is the first and true inventor and if it turns out that he was not, the patent is subject to invalidation.

The owner of a Trade Mark is the person who registers it and in contrast with patent and copyright law a trade mark is not recognized as having a proprietor before an application is made and as such the first person to register as the proprietor will be considered as owner. Disputes as to entitlement to use a trade mark will only be decided with reference to issues of invalidity of the mark or the requirement that applications are made in good faith.<sup>14</sup>

### **Work for Hire**

A 'work for hire' refers to original work made by an employee within the scope of his or her job in which copyright belongs to the employer.<sup>15</sup> This term also extends to specially commissioned copyright works created by independent contractors which may vest in the person commissioning the work. As noted above, the creator of the work is presumably the owner of the legal title and therefore, without more, the work created by employees on the job may be the property of the employee unless a work for hire clause is included in his/her employment

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<sup>11</sup> Section 4, Designs Act of Jamaica

<sup>12</sup> Jamaica's Patent Act has no express provisions on this point.

<sup>13</sup> Sherman, Brad & Bentley, Lionel, 'Intellectual Property Law, 2<sup>nd</sup> ed. 2004 at pg. 367

<sup>14</sup> Ibid pg. 947

<sup>15</sup> American Institute of Graphic Arts (AIGA), 'Standard Form of Agreement for Design Services', 2009 ed. At pg. 110

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contract. Failure to include a comprehensive work for hire clause will result in the employee retaining ownership of the intellectual property and the target company's ability to transfer it will require a subsequent assignment from the employee.<sup>16</sup>

As it regards work commissioned from an independent contractor two cases of relevant application to the law as it stands in Jamaica are Robin Ray v. Classic FM Plc [1998] EWHC Patents 333 and Paymaster (Jamaica) Ltd. v Grace Kennedy Remittance Services Ltd. and Lowe, Paul. Ray v. Classic was cited by the Jamaican Supreme Court in the 2010 ruling in the latter as containing the test for determining to whom copyright belongs in commissioned works.

In Ray v Classic, Lightman J summarised the general principles governing the respective rights of the contractor and client in the copyright in a work commissioned by a client where the contractor claims ownership or at the very least joint authorship and ownership of the work created. His summary reads as follows:

*"(1) the Contractor is entitled to retain the copyright in default of some express or implied term to the contrary effect;*

*(2) the contract itself may expressly provide as to who shall be entitled to the copyright in work produced pursuant to the contract....*

*(3) the mere fact that the Contractor has been commissioned is insufficient to entitle the Client to the copyright and the Client has to establish the entitlement under some express or implied term of the contract;*

*(4) the following conditions (which may overlap) must be satisfied: (1) it must be reasonable and equitable; (2) it must be necessary to give business efficacy to the contract, so that no term will be implied if the contract is effective without it; (3) it must be so obvious that 'it goes without saying'; (4) it must be capable of clear expression; (5) it must not contradict any express term of the contract."<sup>17</sup>*

*(5) where it is necessary to imply the grant of some right to fill a lacuna in the contract and the question arises how this lacuna is to be filled, in deciding which of various alternatives should constitute the contents of the term to be implied, the choice must be that which does not exceed what is necessary in the*

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<sup>16</sup> The inclusion of work for hire clauses is particularly important as there is no formal copyright registry in Jamaica in which the employer could be registered as owner with registration being conclusive proof thereof unless fraud is proven.

<sup>17</sup>(4) the law governing the implication of terms in a contract has been firmly established (if not earlier) by the decision of the House of Lords in Liverpool City Council v. Irwin [1977] AC 239

*circumstances<sup>18</sup> (6) accordingly if it is necessary to imply some grant of rights in respect of a copyright work, and the need could be satisfied by the grant of a licence or an assignment of the copyright, the implication will be of the grant of a licence only;*

*(7) circumstances may exist when the necessity for an assignment of copyright may be established. In each case it is necessary to consider the price paid, the impact on the Contractor of assignment of copyright and whether it can sensibly have been intended that the Contractor should retain any copyright as a separate item of property;*

*(8) if necessity requires only the grant of a licence, the ambit of the licence must be the minimum which is required to secure to the Client the entitlement which the parties to the contract must have intended to confer upon him. The amount of the purchase price which the Client under the contract has obliged himself to pay may be relevant to the ambit of the licence.<sup>19</sup>*

In Paymaster v GKRS, Paymaster claimed copyright in the CSSREMIT/Paymaster Multi-Payment Software Head Office Programme used to run its business. It contended that it designed the architecture, provided the specifications and contracted Paul Lowe to write the software from the specifications. Paul Lowe subsequently licensed the Software to Grace Kennedy who used the programme to start Bill Express, a competitor of Paymaster. There were issues of lack of clarity of the terms of engagement of Mr. Lowe by Paymaster regarding the ownership of copyright in the end product. Maintaining that he was the owner of the software Mr. Lowe asserted that he was within his right to license the software to third parties and was under no exclusive arrangement with Paymaster.

Paymaster contended that by the very nature of the contract, whereby Paul Lowe was contracted to convert the scripted words of the architectural plan of the computer programme into computer codes for a large fee and whereby all preparatory work and the costs of same was undertaken exclusively by Paymaster that it was an implied term of the agreement that Paymaster is entitled to ownership of the programme. Jones, J in ruling that Paymaster did not own the software programme created by Lowe upheld the principles enunciated in **Copinger**

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<sup>18</sup> (see Lord Wilberforce at p.245 F-G) *ibid*. In short a minimalist approach is called for. An implication may only be made if this is necessary, and then only of what is necessary and no more;

<sup>19</sup> In his final point he Lightman J noted that the licence accordingly is to be limited to what is in the joint contemplation of the parties at the date of the contract, and does not extend to enable the Client to take advantage of a new unexpected profitable opportunity.



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and Skoane James on Copyright, Volume 1, 14<sup>th</sup> ed. which states that a person who commissions a work to be made by another does not automatically become the first legal owner of the copyright and his interest in the copyright will depend on the terms of the contract. In accordance with modern, general principles the term implied should go no further than is necessary to fill the lacuna in the express terms of the contract, so that if the implication of a licence of some kind will meet this need, no agreement to assign should be implied.<sup>20</sup>

Case law establishes that the mere fact that a client commissions a contractor to do work, provides a concept and even pays him is insufficient to grant the client an entitlement to the copyright. Where there is no specific agreement granting rights to the client and it becomes necessary to imply terms, the implication will be of a grant of a licence only and not assignment.<sup>21</sup>

It will therefore be key for the Purchaser to compile and review all contracts of employment and contract for services relevant to those classes of employees or contractors that are involved in the creation of IP utilized by the company as a key part of its business. Examples of work for hire terms to look for are as follows:

- (a) Any and all intellectual property created by the Employee shall be considered a 'work for hire'<sup>22</sup> created by the Employee in the course of his employment and shall automatically become the property of the Employer.
- (b) The Employee shall assign all economic rights in the intellectual property created as a work for hire to the Employer and shall be prohibited from taking any steps to transfer or otherwise commercially exploit or exhaust same for profit or other valuable consideration.
- (c) The Employer shall have the sole right to register trade mark, trade dress, copyright, design rights or other intellectual property rights that arise now or in the future in the work for hire as proprietor thereof.

To the extent that any contracts of employment or services for relevant personnel are devoid of appropriate work for hire clauses it is important for release contracts whereby the employee/independent contractor explicitly assigns their economic rights to the target company to be prepared.

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<sup>20</sup> Paragraph 5-169 at pg. 301

<sup>21</sup> Of Copyright And Competition: Findings Of Paymaster V Grace Kennedy Remittance Services And Paul Lowe, by Teri-Ann A. Lawson, Attorney-At-Law, Published in Financial Gleaner, May 21, 2010

<sup>22</sup> Note that while some Copyright Statutes expressly define a 'work for hire' Jamaica's Copyright Act makes no reference to same.

### **Joint Ownership**

If ownership can be established by the target company, it is important to determine how ownership is held as there may be agreements material to ownership that affect the transaction particularly where the IP asset is jointly owned.

Joint authors of intellectual property will generally hold it as tenants in common and not joint tenants.<sup>23</sup> What this means is that each co owner has the right to exploit the intellectual property at the same time and to the full extent allowable under the law without recourse to the other joint proprietor including undertaking acts that would otherwise amount to infringement. There is also no obligation of a joint proprietor to account to the other for any income generated from exploitation of the intellectual property.<sup>24</sup> Additionally each joint owner can by agreement or otherwise, waive its rights to the exercise of its rights under the law which waiver will not affect the other proprietor's rights.

Notwithstanding the above a joint proprietor is prohibited from granting a licence to use the IP or assign or charge his share in the IP without the consent of the other joint proprietor or proprietors.<sup>25</sup>

One joint proprietor may institute infringement proceedings in relation to infringement but will generally require the leave of the Court to proceed with the action unless the other proprietor or each of the other proprietors, as the case may be, is joined as a plaintiff or added as a defendant. This is a key point for commercial and litigation attorneys alike as it is important to note that by joint ownership, unless there is agreement to the contrary, a business has opened itself up to direct competition in the same or similar markets and it may also share the detriment of being involved, at the very least by being named, in acrimonious lawsuits initiated by a joint proprietor. However, the Trade Marks Act, for example, outlines that unless a joint proprietor takes part in the proceedings, joint proprietor who is added as a defendant shall not be made liable for any costs in the action<sup>26</sup>

### **Third Party IP**

#### **Licences**

It is imperative that both the Purchaser and Vendor examine the terms of the IP licences to determine whether and to what extent the licence may be invalidated by the transaction or transaction structure. Licenses are either exclusive or non-exclusive and this status will affect

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<sup>23</sup> Encyclopedia of Forms and Precedents, Volume 21(2) at paragraph 3059. See also Section 22(3) of the Copyright Act of Jamaica re co-ownership.

<sup>24</sup> Section 6, Trade Marks Act of Jamaica

<sup>25</sup> Section 6(4) *ibid*

<sup>26</sup> Section 6(5) *ibid*

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the strength and value of competitive advantage to be derived from use of the licensed IP. An exclusive license allows the target company to use the licensed IP to the exclusion of all other third parties and to take action against infringers if the owner fails to do so.<sup>27</sup> Further, an exclusive licensee will have the same rights against successors in title as he does the original licensor. A non-exclusive license allows the grantor to grant the same, similar or even varying rights to the use of the intellectual property to multiple third parties including the target company. A non-exclusive licensee does not acquire the benefits accorded to an exclusive licensee. The target company should keenly examine the terms of any license to ascertain whether it prohibits or restricts (i) changes of control of the target company and/or (ii) the target company's assignment of its rights under the agreement.<sup>28</sup>

### **Licenses granted by Target Company**

Where for instance the transaction structure contemplates the sale and transfer of IP assets to a third party affiliate of the Purchaser which IP is then licensed back to the Vendor to facilitate the continuation of its business this may violate the terms of a previous exclusive license granted by the Vendor. Issues of breach of contract and/or IP infringement may then arise.

Also the target company may have granted a license of broad application to the use of a large majority if not all of a particular type of IP asset owned by it and its affiliates. In this instance the Purchaser may be considered affiliates of the target company and the Purchaser's IP will possibly be bound by said license.<sup>29</sup>

Concerning licenses granted to third parties both the Purchaser and Vendor should be cognisant of the provisions of relevant termination clauses and the term of the license itself. Where a license granted by the target is a sore point for the Purchaser in the negotiation the Vendor can examine these clauses to determine an effective and breach-free way of terminating same or renegotiating more favourable terms. Additionally for IP which it uses pursuant to a license any rights of renewal, purchase or renegotiation should be examined keenly.

### **Security Interests**

Companies with strong I.P portfolios often use their intellectual property rights as collateral in security financing. Security interests can be recorded against specific items of IP and do not have to relate to the company's general portfolio. The Purchaser and Vendor should be concerned with all unreleased security interests at the time of the transaction which securities

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<sup>27</sup> Sections 34 and 35 of the Copyright Act of Jamaica

<sup>28</sup> Glazer, Danielle, 'Intellectual Property: Stock Purchases and Mergers', The Trademark Reporter Vol.102 No.4, July-August, 2012 at pg. 1058

<sup>29</sup> Ibid at pg. 1061

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generally take the form of a lien or bill of sale. The law regarding IP security interest is governed by the Companies Laws of Jamaica as well as all relevant IP legislation to the extent that it deals with same as, for example, the Designs, Patent and Copyright Acts are silent on this issue. Section 93 (3) (i) of the Companies Act provides that: *“(i) a charge on goodwill, on a patent or a licence under a patent, on a trade mark or on a copyright or a licence under a copyright” shall be eligible for registration.*”

It would appear from a reading of section 30 of the Trade Marks Act and section 93 of the Companies Act together that registration of the transaction in one registry will not automatically result in the benefits to be derived from both pieces of legislation. As such while registration in the trade mark registry will protect a creditor against a bona fide purchaser without notice it will not prevent a charge from being void against a liquidator under the Companies Act and vice versa.<sup>30</sup>

It is also to be noted that under section 75 of the Trade Marks Act no notice of any trusts express, implied or constructive is receivable by the Registrar and further any equities in respect of a trade mark may be enforced in like manner as in respect of any other type of personal property.

### **Confidentiality Agreements**

As mentioned earlier, there is no formal registry in which confidential information important to a business can be registered to prevent a breach of confidence by a party to an agreement. The law of confidence has developed through case law to protect the person who discloses secrets to another in circumstances of confidence from having that trust broken. In order to enforce a right to confidentiality Megarry J in Coco v A.N. Clark [1969] RPC 41, 47, laid down the following criteria:

- (i) The information must have ‘the necessary quality of confidence’
- (ii) There must be an obligation of confidence in the circumstances
- (iii) Breach of confidence will cause detriment to the confider; and
- (iv) There must not exist a valid defence to breach of that confidence, for example that the information is already in the public domain to a sufficient cross section of the public or that it is in the public’s interest.

Megarry J went further to state that where information of industrial or commercial value is given on a business-like basis and with some avowed common object in mind, such as a joint

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<sup>30</sup> Section 93(1) of the Companies Act.

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venture or the manufacture of articles by one party for the other, I would regard the recipient as carrying a **heavy burden** if he seeks to repel a contention that he was bound by an obligation of confidence.

In the aforementioned Paymaster case, Paymaster claimed that it had met with Grace Kennedy to discuss a business partnership and as part of its preliminary talks revealed to Grace Kennedy its business plan to set up Paymaster and gave its representative a copy of the plan. Paymaster further claimed that subsequent to a breakdown in its discussion Grace Kennedy set up Bill Express, a remittance business that functioned much like Paymaster as set out in its business plan. In its pleadings Paymaster stated that Grace Kennedy improperly retained and used its business plan which it was given in good faith and which contained “confidential information” regarding its computer programme and modus operandi.”<sup>31</sup>

Following the principles enunciated by Megarry J in the *Coco v. A.N Clark* case above the court held that on the evidence it was conceded by Grace Kennedy that it in fact received the Paymaster business plan and for the court bearing in mind the circumstances of their meeting a business relationship was being contemplated and that the heavy burden outlined in *Coco’s* case above was not rebutted by Grace Kennedy and in the circumstances it did have an obligation of confidence to Paymaster. Nevertheless it is important for Paymaster to then go onto prove that Grace Kennedy did in fact use its business plan to start Bill Express. From a comparison table of the functioning of Paymaster as per the business plan and the operation of Grace Kennedy Remittance service provided by Grace Kennedy the court found that the services offered by both parties were sufficiently dissimilar for them to find that the business plan was not in fact used and the claim of breach of confidence failed.<sup>32</sup>

What this case demonstrates is that in a situation where a competing entity uses disclosed confidential information to boost its competitive advantage and market share, intellectual property laws do not generally protect the business idea itself but the expression and application of same. Furthermore, a breach of confidence of a shared idea can only be found where it is evident that the recipient used the secret information to its advantage. There is no obligation in commercial dealings for gentlemanly behavior and in those circumstances strict proof of use or comparatively similar use of confidential information must be proven.

### III. PRACTICAL TIPS FOR COUNSEL

Transactions often involve an external counsel but also an internal counsel of the target company. The transaction usually begins with the disclosure of the assets of the company in an

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<sup>31</sup> Paymaster Jamaica Limited v. Grace Kennedy Remittance Services and Paul Lowe, Claim No. 200 C.L.P. 82, Judgement on April 30, 2010 at pg. 33

<sup>32</sup> Pgs. 41-42 *ibid*

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agreed due diligence format. The documentation is usually placed in a virtual data room, however, it is possible that a physical data room will be used.

The target is likely to state that it owns certain IP rights and will only place documents in respect of such assets/rights in the data room. However, counsel for the purchaser should understand the target's market and how important IP is to it. If the target is a start-up or a mature business, then the counsel may need to make varying enquires. For instance, a start-up is unlikely to have had any prior infringement actions against it and so the warranties may be even more crucial as the risk may be a bit larger. On the other hand, the mature company may have an established IP portfolio which may not be readily revealed under the IP section in a data room or on the due diligence listing. Due Diligence assists the both parties to identify any risks in the Company. As noted earlier, some of these risks may not be very obvious.

### **Due Diligence and the Vendor's Counsel**

Due diligence assists the Vendor's Counsel to mitigate any losses that may occur. The Vendor's counsel may see emerging problems or risks which can be rectified prior to closing e.g. informal arrangements which can be formalized, copyright which has not yet been vested in the company, trade marks at risk of revocation as a result of non-use etc. Further, the Vendor may become aware, only at this point, of the assets in respect of which it has full title. These items will form part of a disclosure listing to which the warranties and representations will not apply.

### **Due Diligence and the Purchaser's Counsel**

Counsel for the Purchaser will use the due diligence process to generally understand the target company. The important IP question to be asked is whether the target owns the key intellectual property which is required for the operations of the company and the scope of the asset e.g. it may be restricted to a certain territory or to certain goods or services or limited in duration. In many circumstances the brand is the most valuable aspect of the company being purchased.

### **Trade Marks**

The IP in the data room may be limited to trade marks. Some of these trade marks may be based in Jamaica and in overseas jurisdictions. If based in Jamaica, then independent trade mark searches can be conducted to verify authenticity. Similar verification searches can be carried out in overseas jurisdictions, however, where no online search databases are available, one will need to instruct overseas counsel to carry out such searches which may prove costly.

Here are the critical points to look at when conducting the trade mark search during due diligence:

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1. The mark's date of expiration. Under section 3 of the Jamaican Trade Marks act, trade marks have a duration of ten (10) years. Counsel should look at whether the mark's expiration date is approaching. If it is, this may involve the payment of renewal fees shortly after acquisition.
2. Whether three or more years have elapsed since registration. If the mark is not being used or was registered defensively then an inactive mark may be liable for revocation on the basis of non-use. Section 43 of the Trade Marks Act provides that a mark may be revoked (upon the application of a third party) if bona fide use is not made of the trade mark by the proprietor or with its consent in Jamaica and there are no proper reasons for non-use (such as import restrictions on the product).
3. Whether there are any registered licences or security interests such as pledges registered against the trade mark.
4. Whether the proprietor is really the target company or an associated company of the target. If the latter is the case, then the mark will have to assigned to the purchaser prior to closing of the transaction or a licence be executed in favour of the purchaser.

However, there are other aspects of the trade mark due diligence which will extend beyond the trade mark search. The purchaser must carefully look at the market of the business, including its competitors, and the general marketing plan of the target. A trade mark may, for instance, be included in the website or letterhead but not exist on a register. These are unregistered trade marks and are just as important as registered trade marks.

If there are policies regarding management of the trade mark portfolio, such policies should be disclosed. These policies may include rules regarding when to abandon a trade mark registration, the filing of defensive trade marks. Purchaser's counsel should ask about possible coexistence agreements and consents which may have been executed by the company. These consents may not be limited to trade marks but extend to business name registrations.

The Vendor's Counsel should also be aware of the target's policies, if any, on use of the trade mark, and make note of marks which are being used in a generic manner. There are several trade marks which have now become generic mainly because the products were one of a kind when first created. For instance, THERMOS, PINA COLADA, ASPIRIN and FORMICA were all trade marks which became generic i.e. types of products. Phillips defines a generic term as one which "...indicates an article (i) without alluding to its source or origin and (ii) without specifying any particular qualities and characteristics which distinguish it from others of its kind."<sup>33</sup> Other trade marks can be at risk of becoming generic because proper use of the mark was not enforced by the proprietor.

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<sup>33</sup> Phillips, Jeremy, Trade Mark Law: A Practical Anatomy, p. 172

### **Patents**

Both the vendor and purchaser must assess whether the target company has a concrete set of procedures for identifying and protecting new inventions key to its current and planned future business.

Patent policies should require that patent claims are drafted broadly enough to prevent simple design-arounds. Both parties should also examine whether the target company has a compulsory patent licensing policy as a revenue stream. It is important to determine whether these licences are being granted primarily to entities in non-competing fields or whether the ambit is so wide that it includes direct or potential competition.

### **Copyright**

The Purchaser should determine whether the Vendor has a policy of recording its copyrightable material with an independent party. For instance does the target company register copies of its works with the Intellectual Property Service Centre and is there a record of such registrations?<sup>34</sup>

If the target company is a technology company, then you may wish to enquire if the source codes for software are stored in secure locations and registered in any overseas jurisdictions which require copyright registration.<sup>35</sup>

### **Trade Secrets**

The target company's confidentiality procedure should be such that it allows reasonable protection of trade secrets by (i) making it compulsory for employees to sign non-disclosure agreements (ii) each category of employee or each type of business negotiation should be subject to a predetermined level of disclosure of sensitive information and (iii) there should be strict written practices for disclosure to third parties outside the target company.

The Purchaser will also need to carefully review the employment agreements, research and development contracts, domain name registration contracts and even social media policies to see whether there are intellectual property assets to be identified.

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<sup>34</sup> The Intellectual Property Service Centre (IPC) which was formed in April 2000 provides voluntary copyright recordation in conjunction with the National Library of Jamaica (NLJ). The IPC's copyright recordation process affords copyright owners an independent record of their claims to copyright and, through the NLJ, a depository for their copyright claims and works

<sup>35</sup> The United States requires the registration of source codes in software for it to vest under US laws.



**Social Media Usage**

Social media registrations of the company should be quickly identified. Twitter handles and facebook names, including variations which have been defensively registered, should be noted. Identify and review the Social Media or Web 2.0 policy. Such policies should speak to retention of the password to the social media platform. These passwords should be handed over at closing and changed as soon as possible thereafter.

It is the presence of policies and/or documents that will give the Purchaser more confidence to accept the warranties and representations as to ownership, chain of title and enforceability of its IP rights made by the Vendor in the relevant transaction agreement.

**Identifying Items Missing from the Due Diligence Checklist**

A significant portion of the due diligence process will involve looking at items which are missing from the intellectual property listing which has been disclosed. One must remember that in a share acquisition transaction, the Vendor Schedule is really confirmatory because the Vendor is subsumed under the share transfer. It is the Purchaser's duty to make enquiries in areas which may not even appear to have intellectual property aspects. For example, the target company may be a distribution company which may be a party to a distribution agreement which has provisions regarding the brand's usage. These are intellectual property elements of the transaction which should not be ignored.

**Establishing Chain of Title**

Generally, the purchaser's major concern is to have chain of title established prior to closing. This is analogous to establishing that a vendor has good title prior to transfer of property in a real estate transaction.

The establishment of chain of title may require the Vendor to have recordal of name changes and outstanding assignments completed prior to closing. It will help if there is a further assurance that the Vendor will either complete recordals or assist the purchaser in such recordals post completion. To ensure that assistance is given post-completion, a "Further Assurance" provision should be inserted into the transaction agreement. A typical "Further Assurance" clause in an asset purchase agreement may read as follows:

*"The Vendor undertakes to execute and deliver any other documents and take any other steps as shall be reasonably required by the Purchaser to vest the Assets in the Purchaser".*

**Establishing Access to Other Intellectual Property Rights**

Licences

The target company may have been licenced intellectual property by another entity such as its parent. If possible, negotiate the assignment of the intellectual property if this intellectual property is required for the operation of the target. If assignment is not possible but the target still wishes to utilize the intellectual property then these licences may have been informal and so the licence will need to be formally executed and registered (if necessary) prior to the closing of the transaction. The Trade Marks Act does not make a recordal of a licence a requirement, however, it is highly recommended especially if the licensee may wish to undertake anti-infringement action on behalf of the proprietor of the trade mark.<sup>36</sup>

Companies normally have or should have software licences even for the most basic software. Counsel should ensure that the licences are up to date and genuine. The target may be at risk for software copyright infringement if it is using counterfeit software. Remember that it may not be possible to raise the defence of lack of knowledge of the infringement since the target company is a legal person which may have had knowledge of the infringement even if such infringement was actuated by the former owners or operators of the target company.<sup>37</sup>

Intellectual property licence agreements should be closely inspected by counsel to see if the target/ vendor has the power to assign or even if the licence can be transferred to a successor in title. The Purchaser's counsel should inspect expired or terminated licence agreements since there may be litigious issues which arise and in respect of which the purchaser should be prepared.

Generally, the Purchaser's Counsel should ask the following key questions regarding licences:

1. Which party to the licence is responsible for dealing with third party claims that use of the intellectual property infringes third party rights.
2. Who bears the cost of fees or royalties paid to third party intellectual property owners?
3. Who owns any new intellectual property developed under the licence?

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<sup>36</sup> The terms of a Trade Mark licence may speak to whether the licensee can take action on behalf of the proprietor. Otherwise, sections 33 and 34 of the Trade Marks Act make provision for the licensee to act in infringement proceedings where the proprietor fails to do so.

<sup>37</sup> Section 31(3) of the Copyright Act generally requires that the infringer has knowledge or has reason to believe that the items infringe the copyright of another.

### **Intellectual Property Disputes**

The Purchaser should ask that the Vendor disclose all cease and desist letters that have been sent and received by the target. Several cease and desist letters in respect of certain trade marks may indicate that a brand is under threat. Employment disputes regarding ownership of material created may indicate potential disputes. If there are disputes, the purchaser should:

1. Assess the seriousness and likelihood of success if the matter becomes litigious.
2. Consider what indemnities can be inserted into the agreement;
3. Consider the insurance coverage in the event the target is unsuccessful in a claim;
4. Speak to litigation counsel and get a formal opinion on the matter.

Glazer<sup>38</sup> suggests that the Purchaser should ask the Vendor to identify and provide relevant documents for all past, pending, asserted and threatened infringement, dilution, unfair competition, misappropriation and other IP related claims or office actions involving: (i) the target company and its affiliates (ii) major licensors' or licensees (iii) arbitration proceedings or litigation and (iv) any *inter partes* proceedings affecting the continued validity of IP rights between the target company and relevant Intellectual Property Office.

The Purchaser should note when the target company became aware of any intellectual property dispute. Where the target has delayed in taking action, it may not be able to obtain interim injunctive relief in a court of law.

### **Drafting the Agreement**

Provided that the purchaser has agreed to continue with the purchase after conducting the due diligence, the parties will thereafter move onto finalizing the terms of the agreement for purchase of the assets or shares of the target company.

We have already mentioned the importance of the further assurance provision. The following clauses are also key:

1. **Definition of Intellectual Property Rights:** It is common for intellectual property rights to be defined *en bloc* and if so, this definition should be as extensive as possible. The definition should include the types of intellectual property already defined. "Know-how" is often included in the definition though it is strictly not a form of property.<sup>39</sup> In the context of an Asset Purchase Agreement or where an intellectual property asset is crucial to the Agreement for sale and purchase of the shares, the intellectual property asset should be specifically set out.

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<sup>38</sup> Ibid 20 at pg 691

<sup>39</sup> Encyclopedia of Forms and Precedents, Volume 4(3) Boilerplate and Commercial Clauses p. 180.

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The parties may wish to use both the general definition of intellectual property rights and the specific definition of certain key intellectual property in an agreement.

2. **Representations:** A representation is the allocation of the risk in the assets between the Purchaser and the Vendor. A Vendor will likely be asked to represent that it owns the assets being sold or subsumed under the share transfer, that it has the right to use these assets, that there are no encumbrances or security interests in the assets and that all intellectual property agreements are valid.
3. **Warranties:** The Vendor should specifically warrant that the intellectual property owned does not infringe the intellectual property rights of third parties. A typical pro-Purchaser warranty may read as follows:

i. “  
*The Vendor is the absolute beneficial owner, registered proprietor or licensee of the Intellectual Property Rights and there are no subsisting licences or other agreements under which the Vendor has granted to any third party any rights or interests in connection with the Intellectual Property Rights or any rights to any know-how or confidential information relating the Business.*

ii. T  
*he Business does not require any intellectual property rights other than the Intellectual Property Rights in order to use any of the processes employed in the Business and neither the operations of the Business nor its products infringe or are likely to infringe any patent or other rights of any kind vested in any other party or give rise to the payment of any royalty or similar sum or involves the use of any confidential information of any other party.*

iii. T  
*he Vendor owns the copyright in the designs of all brochures, literature and marketing material and so far as the Vendor is aware none of the same infringes any right of any other person or involves the unlicensed use of confidential information disclosed to the Vendor.*

iv.

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*o the best of the Vendor's knowledge, information and belief there has been no infringement of Intellectual Property Rights at any time during the period of one (1) year prior to the Effective Date."*

4. **Costs:** The parties may wish to consider how to allocate the cost associated with entering into the Agreement and any ancillary agreements which will be needed in order to vest the intellectual property in the purchaser.

The Vendor may wish to disclose certain matters which will not be covered by the representation such as encumbrances or third party claims to any intellectual property.

#### **Issues affecting IP portfolio valuations**

1. **Royalty Obligations:** A Purchaser must be able to determine whether any royalty, commissions or similar fees are payable by the target company in order to continue development and sale of the target company's products and whether such fees are payable by the Purchaser as a result of the completed transaction.<sup>40</sup> The amount and duration of royalty obligations directly impact upon the Vendor's valuation of the target company's assets.
2. **Fair Competition:** Lebson and Bryer<sup>41</sup> note that parties to a merger would be ill-advised to ignore fair competition laws concerns in the context of obtaining intellectual property assets. Intellectual property rights and acquisitions are often the main focus of pre-merger examinations regarding whether the transaction will place the Vendor or Vendor and Purchaser in a dominant position in the relevant market.<sup>42</sup>

#### **Post-Closing**

The closing of the transaction will trigger certain assignments and the vesting of intellectual property when such assets are on a public register. Trade marks and patents exist on public registers in Jamaica and so formal assignment will be necessary.

#### **Assignment of Trade Marks**

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<sup>40</sup> Morgan Lewis & Bockius LLP, 'Intellectual Property Issues' ©2009

<sup>41</sup> Bryer, Lanning G. & Lebson, Scott J.'Intellectual Property Assets in Mergers and Acquisitions' ©2002 at pg. 4; Article redacted from book Intellectual Property Assets in Mergers and Acquisitions published in 2002 by John Wiley & Sons publications.

<sup>42</sup> Sections 19-21 of the Fair Competition Act of Jamaica

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Section 27(1) of the Trade Marks Act provides:

*“A registered trade mark is transmissible by assignment, testamentary disposition or operation of law in the same way as other personal or moveable property, and is so transmissible either in connection with the goodwill of a business or otherwise.”*

Every jurisdiction will have different requirements in respect of the assignment documents. This means that a global master assignment may not always be feasible. You may need to ask counsel in the jurisdictions in which the mark is registered to send you a common form assignment so that there is compliance with the formalities for each jurisdiction.

An additional problem with the usage of a global master assignment is that the consideration for the particular trade mark in a jurisdiction is not usually evident on the face of the assignment and a post transaction common form assignment specific to the jurisdiction will be necessary. If a post transaction common form assignment is not practical (for instance where the assignor is no longer in existence having been wound up post transaction) the Jamaica Intellectual Property Office and/or the Stamp Office may accept a Statutory Declaration from an individual closely connected to the transaction as to the precise value of the trade mark being transferred.

Section 27(4) of the Trade Marks Act requires the Assignment of a registered trade mark to be in writing and to be signed by the assignor. A similar provision exists in relation to copyright in section 23 of the Copyright Act. If the assignor is a body corporate, the requirement may be satisfied by affixing the seal. However, there cannot be sole reliance on this provision as provisions of the target company’s Articles of Incorporation will speak to the mode of affixing the seal of the company. In most instances, the seal can only be affixed by two directors or a director and the company secretary.

### **Tax Implications**

The tax authorities are keen to ensure that the value of the goodwill being transferred with the assets or in the share transfer is appropriately included. Counsel should, therefore, ensure that the accountants valuing the business are cognizant of the goodwill.

Stamp duty is payable on assignments including assignment of intellectual property rights. Such assignments are treated as conveyances under the Stamp Duty Act. Stamp duty is usually assessed at [6.875%]. Transfer tax is not levied on assignments.

It may be necessary to structure the transaction so that the transfer of the intellectual property rights is treated in the most tax efficient manner for the Purchaser. In some instances, it may be more tax efficient to have vendor treated as an expense on the books of a company incorporated and doing business in a highly taxed jurisdiction, eg Jamaica in comparison to an IBC country within the CARICOM region. For instance, the vendor assets can be held by a St Lucian company and the Jamaican company will pay a licence fee to use the asset. The licence fee will be treated an expense on the books of the Jamaican company and this reduces income tax liability in Jamaica while at the same time increasing outflow of funds to St Lucian company. The income from the St. Lucian company would be taxed at 1%.

On the other hand, the company may wish to continue having the intellectual property as an asset especially if the company is contemplating an Initial Public Offer (VENDORO) or debt financing.

#### **IV. Liabilities: Points of Interest for Litigation Attorneys in Mergers and Acquisitions**

As stated above, depending on the internal policies of the target company regarding IP owned and/or utilized by the target company in its business operations, the Vendor may likely be at the time of the transaction or can anticipate becoming involved in legal proceedings for matters of infringement or breach of ancillary rights like confidentiality and restraint of trade.

##### Evidence

Information appearing on the face of the register for any IP right for which formal registration with the relevant Intellectual Property Office is available is taken by law to be evidence of all matters related to the Vendor and the interests held in that right unless this presumption is rebutted.<sup>43</sup> The Registers will therefore need to be examined clearly to establish the rights of the target company in either case where it is entitled to sue or be sued for infringement of IP rights. Where the process of demonstrating an enforceable interest in the IP asset lends itself to competing legal and/or equitable rights evidence can be drawn from any such method of customary documentary identification.

##### Remedial Action:

There are various remedies available in an action for infringement however at the time of the transaction, in order to establish and preserve, in essence, the 'status quo' of the target company and to determine any adjustments that may need to be made to the value of its IP

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<sup>43</sup> See for example section 39 of the Patent Act, section 17 of the Designs Act

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portfolio would be the remedies of delivery up of infringing goods (in civil or criminal proceedings), injunctive relief to restrain infringing activity and a negotiated settlement.

Bearing in mind the above it will be incumbent on a litigation attorney to make a reasonable assessment of the appropriate remedial steps to take to facilitate the merger or acquisition transaction considering the likely cost of the dispute (current and future) and the materiality of the dispute to the target company's business overall.<sup>44</sup>

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<sup>44</sup> Ibid 37 at pg. 1062

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