



Q241 – IP Licensing and Insolvency

Introduction to Working Questions 2014

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Background

- Recent insolvency of several companies with large IP portfolios and significant involvement in international licensing arrangements has brought this issue to the forefront
- In many industries, such as high-tech and telecommunications, cross-licensing is vital to provide market players with freedom to operate
- In some industries, such as the music industry, long, complex chains of IP licenses are common
- Insolvency of licensor can have devastating impact on licensees, and on industry as a whole
- Insolvency of licensee may result in transfer of licensee to an undesired party from viewpoint of licensor

Current Problems

- Many countries provide no clear guidance regarding effect of IP licenses in an insolvency situation
 - IP law and bankruptcy law may be in conflict
- In countries that do provide guidance, approaches vary significantly
- Jurisdictional issues will arise in cross-border licensing situations

Questions for Consideration

- Do current national laws or jurisprudence provide rights / obligations for licensee / licensor in the event of insolvency?
- If yes:
 - Is IP encompassed by these laws?
 - Are IP rights treated as distinct from other contractual obligations of insolvent party?
 - Does it matter if licenses are exclusive or non-exclusive?
 - Under what conditions may a bankruptcy trustee step into, sell, modify, or terminate an IP license?
- Mapping of current national laws would be useful

Questions for Consideration

- In the event of insolvency of a party to a license, what would provide an appropriate balance between protecting the rights of the other party and allowing the bankrupt estate to maximize value to creditors?
 - Differences between insolvency of licensor versus licensee?
 - Differences between types of IP being licensed?
 - Affect of public interest?
 - Differences between exclusive and non-exclusive licenses?
 - Differences between original licenses and sub-licenses?
 - Other possible factors
 - Paid-up versus royalty-based license
 - Existence of alternative technologies (i.e., effect on licensee's business)
 - Term of license
 - Contractual terms in license relating to insolvency and limitations on transfer

Questions for Consideration

- What are the rights and obligations of a trustee when liquidating assets of an insolvent party?
 - Can trustee sell IP rights free and clear of existing licenses?
 - Sale of entire business versus transfer of license?
 - Can trustee modify terms of license?
- What rights / obligations should a licensor have vis-à-vis a third party purchaser of an insolvent licensee?
 - Are contractual prohibitions against transfer/assignment of license enforceable in bankruptcy?
 - What is the effect on sub-licensees?
- In the case of co-owners of licensed IP rights, what should be the effect of insolvency of one of these co-owners?
- If a license includes providing know-how to licensee, how should the right to use this know-how be affected by insolvency of the licensor?
 - Can licensor prevent transfer of this know-how to a competitor?

Questions for Consideration

- In the case of cross-border licenses, which national insolvency laws apply?
 - Does this depend on the state of incorporation of the insolvent party?
 - On the choice of law in the license agreement?
- Are there specific contractual provisions that can or should be included in IP licenses to protect against insolvency?
 - Can IP licenses be addressed effectively using analogies to general contract law and leases?
- Is the use of dedicated IP holding companies desirable?
- Is the use of a registration system desirable?

Questions for Consideration

- Other questions?