

Insolvency and licences

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Licences – whether relating to technologies, trademarks, images, audiovisual materials or software – are increasingly important corporate assets. The insolvency of a licensor or licensee can have diverse implications for the fate of those assets, depending on factors such as place of jurisdiction, applicable law, the insolvency mechanisms available and their effect on such agreements.

What effect does a licensor filing for insolvency have on a licence?

The answer depends not only on the terms of the licence agreement and the law that governs that agreement, but also on the laws of the place where the insolvent party is located.

Under Swiss law, a contract will not automatically be terminated due to the opening of bankruptcy proceedings over a Swiss company. Whether a contract can be terminated on insolvency depends on the law and the agreement that governs the contractual relationship.

If there is no option for termination, the bankruptcy officer of an insolvent company may choose whether to enter into a contract. If the officer chooses not to do so, or does not make an express choice, the counterparty (the solvent party) is left with a claim that may be filed in the bankruptcy. The bankruptcy officer typically has an interest in winding down the company as quickly as possible, not in continuing it as a going concern, and so will often choose not to enter into long-term contracts.

As a licensee typically has an interest in continuing the licence agreement beyond insolvency, a long termination period may assist – not in prolonging the licence as such, which the bankruptcy officer may anyway choose not to keep on, but in providing a claim and a respective creditor position in the bankruptcy. This may also help in acquiring information on interested bidders for the intellectual property in question and giving the licensee the opportunity to make its own offer to buy out the licence if the bankruptcy officer decides to perform a private sale at the appropriate time.

What effect does a licensee filing for insolvency have on a licence?

The effect on the licence agreement is the same as described above. There is no automatic termination of the agreement. If there is an interest in terminating the licence as quickly as possible in a counterparty's insolvency (a typical licensor position), the licensor should have a corresponding termination right written into the agreement.

If there is no contractual option to terminate the licence agreement, the bankruptcy officer can enter into the contract, but can also decide whether to enter into part of a contract only (Article 211a(2) of the Bankruptcy Act). This might mean, for example, entering into a patent licence with respect to certain patents or certain territories only. Claims for performance then rendered are claims against the bankrupt estate rather than claims in bankruptcy, and so have a higher chance of being paid. Claims for the period before bankruptcy is declared and claims under the contract that do not relate to performance rendered remain as claims in bankruptcy.

How and when must the party filing for insolvency let the counterparty know that it

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has entered into insolvency proceedings?

The opening of bankruptcy proceedings is officially published in the *Official Gazette of Commerce* and the entry of the company in the commercial register is amended accordingly. However, there is no explicit legal duty to inform a counterparty of insolvency proceedings. A respective duty of notification must be set out in the licence agreement. In that case, the question that arises is what the consequences are if the party filing for insolvency does not inform the counterparty. If the conditions are met and the party that filed for insolvency failed to inform the counterparty despite its contractual duty, the counterparty may file a claim in the other party's bankruptcy because of the breach of contract. However, this claim will be treated as an unsecured and unprivileged claim.

If insolvency was not contemplated at the time the licence was entered into, can the terms of the licence subsequently be altered to include insolvency-related provisions if one of the parties becomes insolvent? If so, how?

Such clauses (eg, termination of the agreement) must be included when the licence is entered into.

Once bankruptcy proceedings are opened, there are only limited possibilities to continue the contract and to negotiate in relation to the contract.

In the event of insolvency, how can the fair value of a licence be determined? What parameters might be useful in sourcing an external auditor to perform this valuation?

Once bankruptcy proceedings are opened, the bankruptcy officer decides when and how to sell the assets of the company in order to convert these assets into liquidities and distribute the proceeds at the end of the bankruptcy proceedings among the creditors.

Assets belonging to the bankruptcy estate may be sold in a public auction or a private sale. As bankruptcy officers are not usually experts in licences and their value, they often choose a public auction without any prior estimate of the value. The bankruptcy officer may proceed differently if he or she receives a private offer that appears attractive to buy out the intellectual property. However, a bankruptcy officer would not normally search actively for interested buyers.

The date and place of the public auction are published in the respective cantonal gazette, but many interested persons – in particular the individual who could make the stakes rise – are often unaware that such a public auction takes place. Thus, often the prices offered during these public auctions are low – far below the fair value of the licence. For individuals who know that a licence will be auctioned and who are interested in the licence, it can be a real bargain.

What happens if the receivers sell on the licence to a third party?

If the bankruptcy officer of a licensor sells on the licence to another licensee, there is generally nothing that the former licensee can do. The bankruptcy officer can choose whether to enter into the licence contract, and if the officer chooses not to do so he or she can dispose of the assets (ie, the intellectual property that was the subject of the licence) in order to maximise the benefit to the bankruptcy estate.

There may potentially be an exception to this for licences that are fully paid up at the time of the bankruptcy. It is untested in Swiss law, but it may be possible to turn a licence into a quasi-purchase by payment of a one-off lump sum at the outset for a perpetual exclusive licence. The position of the licensee may be further improved by registering the licence in the patent or trademark register. In this case, it may be that the licensee could challenge the onward sale of the licence.

If the bankruptcy officer of a licensor sells on the intellectual property underlying the licence, the effect on the licence will depend first on whether the bankruptcy officer entered into the licence before selling it and, if so, whether the third party was aware of the existence of the licence. The bankruptcy officer is only likely to enter into the licence in these circumstances if he or she believes that the intellectual property is worth more with the licence attached than without. An acquirer of the licenced intellectual property which has knowledge of the licence will acquire the intellectual property with the licence. An acquirer who in good faith is not aware of the licence will acquire the

intellectual property without the licence. If the licence is registered against the licensed IP right, an acquirer of the intellectual property cannot be unaware in good faith. For this reason, among others, it is recommended to register licence rights where possible.

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