

Technology Rights and Distressed Companies

IBA Working Session Vancouver

6 October 2010

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IP as an Asset I

Types

- Copyrights: no registration, ownership upon creation
- Patents, designs and trademarks: registered rights
- Know-how: no registration, protected by provisions of criminal, unfair competition, labor law and confidentiality clauses

IP as an Asset II

Acquisition

- Direct (original)
 - Creator/inventor upon creation/invention
 - Exception: employer with regard to employment inventions/designs/computer programs
- Indirect (derivative)
 - Contract
 - Inheritance or matrimonial property regime

IP as an Asset III

Exploitation

- Absolutely protected IPR
- Applications for registered IPR
- Non-registered IPR (e.g. know-how)
- Caution: certain IPR are not assignable/marketable (e.g. moral rights)
- Caution: splitting of IPR

Swiss Insolvency Law I

- Introductory Proceedings:
 - Debt collection request
 - Summons for prayer
 - Formal objection
 - Dismissal of objection

Swiss Insolvency Law II

- Execution Proceedings
 - Debt collection by seizure of assets
 - Debt collection by realising pledged property
 - Debt collection by bankruptcy
- Debtor Protection:
 - Stay proceedings by settling debts
 - Conclusion of agreement with debtors
 - Examination of validity of debtors' claims
 - Assets essential to financial and physical survival of debtor and his family are exempt from enforcement proceedings.

Swiss Insolvency Law III

- Security Measures:
 - Freezing order to be laid on certain assets belonging to the debtor. The freezing order has the effect of a provisional seizure of these assets.
- Debt Restructuring
 - Comparable to US Chapter 11
 - Debt restructuring moratorium
 - Debt restructuring agreement
 - Settlement of private debt by agreement

IPR and Bankruptcy I

Opening of bankruptcy proceedings:

- Principle: IPR are subject to the bankruptcy estate if they can be transferred and exploited
- Debtor cannot dispose over IPR any more
- All obligations are transformed into monetary claims
- Bankruptcy office establishes inventory and take measures to protect bankruptcy estate

IPR and Bankruptcy II

Realization of IPR

- Auction or sale by private contract
- Supervisory authority determines type of realization / prior hearing of the subjects concerned
- Problem: value of IPR difficult to establish
- All registered IPR: realization possible if application filed or registered
- Copyrights: not moral rights; realization only if work published with author's consent

IPR and Bankruptcy III

(License) Agreements and insolvency:

- No automatic termination upon opening of bankruptcy
- Bankruptcy office can choose to (a) step in and continue contractual relationship against indemnification of licensee or (b) refrain whereby contractual claim is converted into replacement claim.
- Acquirer of IPR has to assume license agreements if registered, brought to bankruptcy estate's knowledge via licensee/third party or via creditor calls.

Contractual Clauses in view of Bankruptcy I

- Not permitted:
 - clauses limiting the choice of the bankruptcy office or bankruptcy proceedings
 - Donations in the event of bankruptcy
 - Circumvention of legal provisions
- Permitted clauses:
 - if concluded prior to the opening of bankruptcy proceedings
 - however possibly subject to challenge

Contractual Clauses in view of Bankruptcy II

- Termination clauses:
 - automatic or optional termination
 - „Security“ measures to avoid challenge:
 - Principle of equality: both parties must have termination possibility
 - No disadvantage of creditors
 - Agree on further termination reasons, e.g. for delay in payment, insolvency restructuring, debt restructuring agreement

Contractual Clauses in view of Bankruptcy III

- Clauses governing consequences of bankruptcy:
 - replacements
 - accretion of rights (e.g. assignment of rights upon opening of bankruptcy proceedings, escrow agreements)
 - Relapse
 - Preemption rights and call options
 - Compensation of damages and liquidation

Contractual Clauses in view of Bankruptcy IV

- „Security“ measures to avoid challenge:
 - No disadvantages for bankruptcy estate
 - No claims for compensation of damages in the event of termination upon opening of bankruptcy proceedings
 - No write offs
 - No contractual penalties in the event of bankruptcy proceedings

Bankruptcy of Licensor

- **Interests of Licensee**
 - Further existence of license agreement
 - Substitute in the event of discontinuation of license agreement
 - Acquisition of licensed rights
- **Interests of Bankruptcy estate**
 - Minimize grant of substitutes
 - Conservation of value of bankruptcy estate assets

Measures in interest of Licensee I

- Conditional assignment of IPR
 - Transfer subject to condition that licensor goes bankrupt
 - Agree on further assignment reasons, e.g. not only for bankruptcy cases, but also cease of continuation of business, restructuring etc.
 - Assignment at arm's length consideration
- Fiduciary assignment of IPR to third party
 - Re-assignment to licensee upon fulfilment of certain contractual conditions

Measures in Interest of Licensee II

- Assignment at arm's length consideration
- However opening of bankruptcy proceedings itself may not be reason for re-assignment
- Pledge as alternative to license
 - Principle of speciality (no floating pledge)
 - Written pledge agreement
 - Entrance in trademark/design/patent register
 - Security interest also includes revenues

Measures in interest of Licensee III

- Source Code Escrows
- Holding solution: establishment of bankruptcy remote subsidiary
- Register license agreement with registry authority

Bankruptcy of Licensee

- Interests of Licensor
 - Discontinuation of licensee's right to use
 - New grant of license
 - Minimize financial loss
- Interests of bankruptcy estate:
 - Minimize substitutes
 - Conservation of value of assets

Measures in interest of Licensor

- Submit claim in bankruptcy proceedings
- Termination clause with regulation on substitutes