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LES Benelux

Licensing Course

Add-on day - 17 November 2021

Clauses Concerning Termination Events

Termination & Insolvency

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# Overview

- What's the problem?
  - Notion of insolvency
  - Risks for the parties
  - Conflict of laws – Conflict of jurisdictions
  - Legal regime in the absence of an agreement
- What can we do? **Clauses to minimize the risks**
  - Background principles to keep in mind (BE law)
  - Protection of licensee
  - Protection of licensor
- **Examples of termination clauses**
- **Key take-aways**



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## What's the problem?

1. Notion of insolvency
2. Risks for the parties
3. Conflict of laws – Conflict of jurisdictions
4. Legal regime in the absence of an agreement (BE law)

# 1. What's the problem? Notion of insolvency



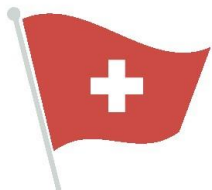
Bankruptcy  
Judicial re-organisation  
Liquidation



Chapter 7 liquidation  
Chapter 11 re-organisation



Bankruptcy  
Judicial re-organisation  
Liquidation



Bankruptcy  
Moratorium

## 2. What's the problem? Risks for the parties

### *Licensee's risks in case of licensor's insolvency*

- Business continuity: the licensee's business activities may depend totally or substantially on specific licensed-in IP rights or technology
- Lost upfront investments: investments may have been made by the licensee especially for the licensed-in IP rights
- Licensor's obligations put at risk
  - Improvements, updates
  - Payment of patent fees/trademark renewals
  - Prosecution of patent/trademark applications
  - Enforcement of IP rights against infringers
  - Provision of knowhow and support
- Dealing with third-party (administrator)
  - Administrator's option right to terminate (+ sell the business free of license)
  - Assignment of the licensor's business (with the license) to a party with interests not aligned with licensee
  - Re-negotiation of the terms of the license (higher royalties, less obligations for licensor, etc.)



## 2. What's the problem? Risks for the parties

### *Licensors' risks in case of licensee's insolvency*

- Payment of past/current royalties/milestones
- Bad press
- If exclusive license and no termination by administrator, no possibility to grant other licenses
- Dealing with third-party (administrator)
  - Administrator's option right to terminate
  - Pursue contract to allow the estate to receive benefits
  - Assignment of the licensee's business



### 3. What's the problem? Conflict of jurisdictions

#### *EU Regulation 2015/848 on insolvency proceedings*

- **Scope:**

- Insolvency proceedings listed in Annex A

- **Article 3 – jurisdiction**

- Centre of the debtor's main interests : jurisdiction to open insolvency proceedings
  - main insolvency proceedings
  - for all assets worldwide, incl. ex-EU (recognition/execution ex-EU?)
  - often: country of registered office
- Courts of another Member State : only if debtor possesses an establishment within the territory of that other Member State
  - secondary insolvency proceedings
  - limited to assets situated in territory of that other Member State



### 3. What's the problem? Conflict of laws

#### *EU Regulation 2015/848 on insolvency proceedings*

- **Article 7 – applicable law**

- law of the State of the opening of proceedings

- **Article 15**

- European patents with unitary effect, European trade marks or any other similar rights established by Union law may be included only in main proceedings

- **CONCLUSION: when drafting agreement, check which judge will have jurisdiction on the licensee's/licensor's bankruptcy**

- Clause may be valid/enforceable under Belgian law (law of the agreement) but not under the law of the insolvency proceedings of the licensee/licensor.





### 3. Example : insolvency of LICENSOR

LICENSOR
Registered office in Germany Establishment in Belgium Owns Belgian patent and EU patent covering The Netherlands

BELGIAN LICENSEE	DUTCH LICENSEE
re. Belgian patent	re. EU patent

#### **Principal proceedings**

- Germany
- Effects on all assets (incl. Belgian and EU patent)
- German law applicable to effects of insolvency proceedings on both license agreements

#### **Secondary proceedings**

- Possible in Belgium (where Licensor has establishment)
- Not possible in The Netherlands
- Effects on assets situated in that country
  - Incl. Belgian patent
- Local law applicable

### 3. Example : insolvency of Belgian LICENSEE

LICENSOR
Registered office in Germany Establishment in Belgium Owns Belgian patent and EU patent covering The Netherlands

BELGIAN LICENSEE
re. Belgian patent  Establishment in Italy

#### **Principal proceedings**

- Belgium (if registered office in Belgium)
- Effects on all assets (incl. license)
- Belgian law applicable to effects of insolvency proceedings on license agreement

#### **Secondary proceedings**

- Possible in Italy (where Licensee has establishment)
- Effects on assets situated in that country
  - Right of use under the license cannot be included
- Local law applicable

## 4. What's the problem? Legal regime (BE) in the absence of an agreement

Bankruptcy	Liquidation	Judicial reorganisation
Principle: agreement continues	Principle: agreement continues	Principle: agreement continues ! Cannot be contracted-out
Caveat: option right of administrator to terminate	Caveat: option right of administrator to terminate	Caveat: option right of debtor to suspend its obligations (only if necessary) + no penalties
Exceptions: <ul style="list-style-type: none"> <li>- <i>intuitu personae</i> agreements</li> <li>- explicit contractual termination clause</li> </ul>	Exceptions: <ul style="list-style-type: none"> <li>- <i>intuitu personae</i> agreements</li> <li>- explicit contractual termination clause</li> </ul>	/
Special regimes for certain IP rights		

## 4. What's the problem ? Legal regime (BE) in the absence of an agreement

### *Publication & audiovisual production contracts*

	<b>Publication Publisher insolvent</b>	<b>Audiovisual production Producer insolvent</b>
<b>Legal basis</b>	XI.200 CEL	XI.185 CEL
<b>Principle</b>	Author may terminate agreement Binding law (cannot be contracted out)	Agreements survive Binding law → Administrator obliged to comply with obligations of producer towards author
<b>Other</b>	Preferential right of author to buy all copies/ reproductions covered by copyright	Option right administrator, BUT: - In any event: all obligations of producer towards author must be complied with - If take over: additional mandatory notification + preferential right

→ Applicable to bankruptcy, liquidation and judicial reorganisation

## 4. What's the problem? Legal regime (BE) – some take-aways

- **Clause providing right for solvent party to terminate IP license, enforceable?**
  - Bankruptcy/liquidation: YES
  - Judicial reorganisation: NO
- **Clause restricting/prohibiting transfer/assignment of IP license, enforceable?**
  - YES
- **Transfer/assignment of IP license resulting from insolvency proceedings:**
  - Rights can be transferred
  - Debts/obligations cannot be transferred without the agreement of the other party
  - Suspicious period?



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## What can we do? Clauses to minimize the risks

1. Background principles to keep in mind (BE law)
2. Protection of licensee
3. Protection of licensor

# 1. What can we do? Background principles (BE law) to keep in mind

- Principle: the agreement continues despite insolvency
- Judicial re-organization: that principle stays whatsoever - termination clause without any effect
- Bankruptcy and liquidation: that principle does not apply if
  - the agreement is *intuitu personae*
  - the agreement provides for its termination in case of bankruptcy/liquidation.



# 1. What can we do? Issues to consider against that background (BE law)

1) Are IP licenses *intuitu personae* agreements?

- Debated
- Better say so (or not so) explicitly in the license agreement

2) Is the agreement opposable to the administrator?

Patent (application)s	License registered at Belgian Intellectual Property Office
Trademarks & designs	Benelux: license registered at BOIP EU: license registered at EUIPO (exception!)
Copyright, databases, non registered designs, ...	No registration required

→ Possibility to register short version of license : include clauses that need to be opposable to the administrator (termination/*intuitu personae* character)

3) Does it make sense to include explicit contractual terms ? If so, which ones?



## 2. What can we do? Protection of licensee (i)

- 1) Register license agreement (if patent/trademark/design)  
! before bankruptcy
- 2) No automatic termination clause  
→ option for licensee to terminate  
! Contractually exclude *intuitu personae* character on the part of the licensor
- 3) Clause prohibiting transfer of license or of IP rights to third parties
- 4) Clause prohibiting grant of securities over licensed IP to third parties



## 2. What can we do? Protection of licensee (ii)

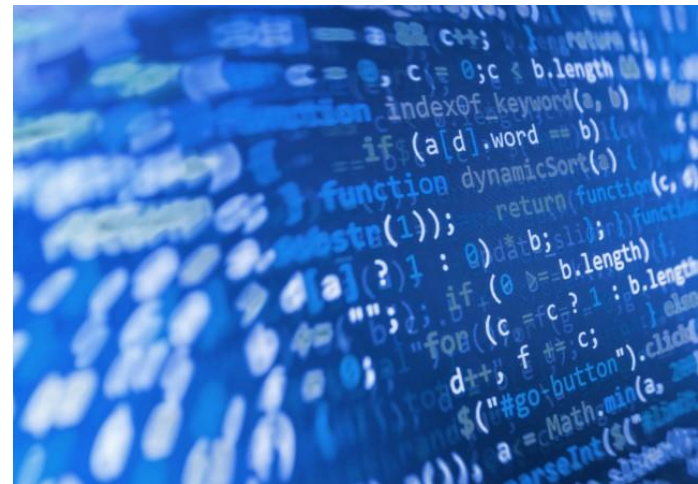
### 5) Secure a security interest / escrow in and on IP rights:

#### ○ Security interest

- Especially when licensee required to pay large upfront royalty for use of the licensed technology
- Reimbursement of amount and/or damages incurred by termination of the contract

#### ○ Escrow

- Mainly for software
- Specify triggering event carefully
- No transfer of property



## 2. What can we do? Protection of licensee (iii)

- 6) Replace license by transfer of IP rights to licensee with exclusive license back to initial licensor
  - acceptance by licensor unlikely
  - only for risky business partners
  - risk of re-characterization?



## 2. What can we do? Protection of licensee (iv)

- 7) Clause granting right to purchase licensed IP rights in certain events (prior to "suspicious period")
  - Asap and in any event before the licensor ceases to pay
  - Include consideration or method to calculate it
  - Should not amount to a transfer of property for free or less than fair market value
  - Pre-insolvency triggering events less challengeable than bankruptcy
  
- 8) Request that licensed IP rights are vested in non-trading companies/bankruptcy remote entities
  - acceptance by licensor unlikely if structure is not already in place
  - Due diligence of that entity
  - Risk of piercing the corporate veil?

### 3. What can we do? Protection of licensor (i)

- 1) Register license agreement (if patent/trademark/design)  
! before bankruptcy
- 2) Automatic termination clause
  - no tarnishment of IP rights by licensee's insolvency
  - no sale to unknown third parties (competitors?)
  - triggering event: the sooner the better
- 3) Secure securities on products sold by licensee under IP rights
- 4) Clause prohibiting licensee or administrator to transfer the agreement without licensor's autorisation (*intuitu personae*)
- 5) Clause limiting the right of the licensee/administrator to sell the inventory of licensed products existing as of the date of the insolvency



# Bird & Bird & Examples of termination clauses

# Example A

*Unless expressly agreed otherwise by each of the Parties, the Agreement shall automatically terminate in the event of a change of Control of the Licensee. For the purposes of this article, "Control" means the ownership of a majority of the voting rights attached to all the shares, units or partnership rights of the company in question, or the right to appoint or remove a majority of the directors or managers.*

- Applicable to insolvency?
- Conclusion: clause insufficient

## Example B

*Except to the extent prohibited by law, either party may, at its option and without notice, terminate this Agreement, effective immediately, in the event that the other party hereto (1) admits in writing its inability to pay its debts generally as they become due; (2) is adjudicated by a court of competent jurisdiction as being insolvent; or (3) has a decree entered against it by a court of competent jurisdiction appointing a receiver, liquidator, trustee or assignee in insolvency covering all or substantially all of such party's property (which appointment is not vacated within sixty (60) days of the entry of the order of appointment) or providing for the liquidation of such party's property or business affairs.*

- in case of reorganisation, clause will be ineffective (BE law)
- in the event of insolvency of either party
- no automatic termination but option right to terminate : **PRO-LICENSEE**
  - no notice: tricky
- triggering events clearly identified



# Example C

*This Agreement shall be automatically terminated and the rights herein contained shall automatically revert to Licensor in case:*

- of voluntary or involuntary insolvency proceedings by or against Licensee or its Affiliates;*
- of the appointment of a receiver for Licensee or its Affiliates;*
- of the assignment of Licensee's or its Affiliates' assets for the benefit of its creditors; or*
- Licensee or its Affiliates shall be liquidated or dissolved*

## → PRO-LICENSOR:

- only scenario envisaged is insolvency of licensee/its affiliates
- Automatic termination

## → Triggering events: vague ('insolvency proceedings', 'liquidated or dissolved')

- Adjudication by court of insolvency? Launch of proceedings?

## → Don't forget: in case of reorganisation, clause will be ineffective (BE law)

# Example D

*Insolvency. Subject to applicable mandatory laws, either Party shall have the right to terminate this License Agreement at any time upon receipt of written notice to the other Party, if*

- the other Party shall be adjudicated insolvent or shall petition for or consent to (including through a proceeding or case commenced against it in any court of competent jurisdiction) any relief under any insolvency, re-organization, receivership, liquidation, compromise, or any moratorium statute, whether now or hereafter in effect, or*
- the other Party shall make an assignment for the benefit of its creditors, or*
- the other Party shall petition for the appointment of a receiver, liquidator, trustee, or custodian for all or a substantial part of its assets, or*
- a receiver, liquidator, trustee or custodian is appointed for all or a substantial part of its assets and is not discharged within thirty (30) calendar days after the date of such appointment.*

*In the event that any of the above events occur, that Party shall immediately notify the other, in writing, of its occurrence. In any event, in any of the above occurrences, the Licensors may decide to transform the License into a non-exclusive license instead of terminating the License.*

- No automatic termination but option right to terminate : **PRO-LICENSEE**
- Possibility for licensor to transform exclusive license: **PRO-LICENSOR**
- **Triggering events identified**
- Don't forget: in case of reorganisation, clause will be ineffective (BE law)

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Key take-aways

# Key take-aways

- 1) Applicable law regarding insolvency proceedings ≠ necessarily contract law
- 2) Register license agreement (if patent/trademark/design)
  - ! before bankruptcy
  - ! where?
- 3) Clause with regard to licensee's and licensor's insolvency
  - applicable law
  - best regime for each scenario
- 4) Draft termination clause in parallel with other clauses
  - intuitu personae?
  - transfer clauses
  - securities on IP?
  - who is in charge of registering license?
  - who is contracting party? Commercial entity?



# Thank you & Bird & Bird



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