SWISS IP & TECHNOLOGY BRIEFING

IP LICENCE AGREEMENTS AND INSOLVENCY

by Nicola Benz

What happens to a license agreement on insolvency of one of the parties? The answer depends not only on the terms of the license agreement and the law that governs that agreement, but also on the laws of the place where the insolvent party is located. Where a Swiss company is involved, the question is all the more timely just now with the entry into force on 1 January 2014 of an amendment to the Swiss Federal Debt Enforcement and Bankruptcy Act ("**Bankruptcy Act**"), intended principally to ease the restructuring of companies in financial difficulties, but bringing with it a number of changes that may be of direct relevance for license agreements.

Under Swiss law, a contract will not automatically be terminated due to the opening of bankruptcy proceedings. Whether or not a contract can be terminated on insolvency, depends on the law and the agreement that covers the contractual relationship. If there is no option for termination, the bankruptcy officer of a Swiss insolvent company may choose whether to enter into a contract or not. If he chooses not, or if he 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.

With regard to long-term agreements wich include license agreements, since 1 January 2014, a bankruptcy officer has a further option. He may decide to enter into part of a contract only (Art. 211a para. 2 Bankruptcy Act). This might mean entering into a patent license with respect to certain patents or certain territories only, for example. Claims for performance then actually rendered are claims against the bankrupt estate rather than claims in the bankruptcy), and so have a rather higher chance of being paid. Claims for the period before the bankruptcy is declared and claims under the contract that do not relate to performance actually rendered remain as claims in the bankruptcy.

Another new provision introduced into the Bankruptcy Act on 1 January 2014 gives a company in moratorium proceedings an extraordinary right of contract termination for long-term agreements at any time (Art. 297a Bankruptcy Act). As a protection for creditors, the approval of the moratorium administrator is required. It is a condition of approval that a restructuring would not be possible if the contract were to continue. The counterparty then has a claim for full compensation for the early termination after deduction of amounts that could have been recovered during the period of compensation. However, the claim is for a dividend from the moratorium, not directly against the company.

The changes to the Bankruptcy Act also introduce a new protection for transactions concluded during a moratorium. With the change, such transactions cannot later be challenged provided they are approved by the company's moratorium administrator (Art. 285 para. 3 Bankruptcy Act).

The third important set of changes for license agreements under the new law relate to claw-back actions, the so-called "Pauliana" challenges (Arts. 286–288 Bankruptcy Act). These allow creditors to attack transactions of a bankrupt company that are not at arms' length, namely; gifts, certain transactions by an overindebted company and transactions carried out with the intention of disadvantaging creditors or benefiting individual creditors to the disadvantage of others. The amended law changes the burden of proof for such challenges where the challenged transaction

involves closely related parties, being for example family and friends, group companies or majority shareholders. So, for example, where an alleged gift is made to a closely related person, the closely related person now bears the burden of showing fair value was received by the bankrupt company in return. Also, where there was an intention to benefit some creditors at the expense of others, a closely related person who benefits has the burden of showing that it could not have known of any intention to disadvantage other creditors. There was already a presumption instituted by the Federal Supreme Court achieving the same effect, but this is now embodied in the law. Therefore, it is strongly recommended to obtain fair value opinions for any transactions between closely related persons or entities where the financial health of one party is questionable.

Finally, there is a change to the rules on time limits for bringing Pauliana claims. Whereas previously claims were completely time barred after a period of two years from the opening of bankruptcy proceedings, now they will prescribe after two years (Art. 292 Bankruptcy Act). Also, the time periods are suspended during proceedings for the purpose of deciding on the opening of bankruptcy, moratorium or similar proceedings (Art. 288a Bankruptcy Act).

The impact that Swiss insolvency laws may have on a license agreement with a Swiss counterpart should be taken into consideration already when drafting the agreement. If the counterparty has an interest in terminating the license as quickly as possible in an insolvency situation (a typical licensor position), it will want to have a corresponding termination right written into the agreement. If the counterparty has an interest in the license continuing beyond insolvency (a typical licensee position), a long termination period may assist – not in prolonging the license 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 IP in question and giving the counterparty the opportunity to make its own offer to buy out the license if the bankruptcy officer decides to perform a private sale at the appropriate point in time.

Bankruptcy laws become relevant again when financial difficulties first arise, as they may impact on the steps that can be taken in order to prepare for a bankruptcy or to try to avoid a bankruptcy. Finally, the new provisions promoting moratorium proceedings may provide additional protection as the focus is on continuing the company in financial difficulties as a going concern.

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