

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 effects does a licensor filing for insolvency have on a licence?

Under Luxembourg bankruptcy law, IP licence agreements are regarded as long-term agreements, rather than assets *per se*. Article 30 of Bill 6539⁽¹⁾ states that insolvency proceedings do not automatically lead to the termination of ongoing contracts. As there are no specific rules for IP licence agreements in the event of insolvency, the general rules of contract law will apply to such agreements under these circumstances.⁽²⁾ The licensor's filing for insolvency will often not lead to termination of the agreement, which is usually not *intuitu personae* (ie, specific to the contracting party) for the licensee.

When insolvency occurs, the trustee in bankruptcy is free to decide whether a particular agreement should be continued or terminated. However, there are two exceptions to this rule:

- The licence agreement contains an express termination clause; or
- The agreement is *intuitu personae*.⁽³⁾

The first exception concerns the freedom afforded the parties to decide to include in their IP licence agreement circumstances under which the license will be terminated. The parties can therefore decide that insolvency triggers termination of the agreement. Under Luxembourg law,⁽⁴⁾ such contractual provisions are usually valid and enforceable in the event of bankruptcy proceedings or liquidation.⁽⁵⁾

The second exception is for *intuitu personae* licence agreements. An *intuitu personae* agreement is when a party decides to enter into the contract due to the identity or quality of the other party. There are no strict rules to determine whether a contract is *intuitu personae*. Rather, an assessment is made on a case-by-case basis by the court, which has broad discretion in this regard.⁽⁶⁾

Licence agreements are usually not considered to be *intuitu personae* from the licensee's perspective. Indeed, licensees are usually concerned by the object of the licence and pay little attention to the identity of the licensor. Therefore, it is rare for a license agreement to terminate due to the licensor's filing for insolvency on the grounds that the licence is *intuitu personae*.

However, as mentioned, this must be assessed on a case-by-case basis with reference to the facts at issue. For example, if specific assistance, know-how or maintenance is expected from the licensor in order for the licensee to be able to use the technology, the *intuitu personae* nature of the contract will be stronger. The same conclusion will be reached if, for example, the licensee decided to conclude the agreement because it knew that the licensor had a certain policy in terms of IP protection.⁽⁷⁾

If the agreement is terminated upon the licensor's insolvency, the licensee loses its rights to use the

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underlying IP rights. Moreover, the licensee should be granted a right of first refusal to acquire the relevant IP rights if the licence is exclusive and the licensee solvent.

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

While licence agreements are usually not considered *intuitu personae* for the licensee, they are often considered *intuitu personae* from the licensor's perspective. Therefore, the filing for insolvency by the licensee will often result in termination of the agreement. Indeed, licensors tend to attach great importance to the identity of the licensee, as the licensee is (among other things) using technology under several IP rights. Therefore, the licensor will choose as its licensee a party with specific qualities, sometimes even a specific identity. However, this does not hold true for standard and mass-market software or database licences.(8)

Filing for insolvency has other consequences, such as the fact that the licensee will no longer be allowed to use the key licensed technology or act within the scope of the intellectual property rights on which its business depends.(9)

It should be noted that IP licence agreements concerning trademarks, patents or designs will be enforced against the creditor's estate only if they are recorded in the relevant IP rights register before the adjudication in bankruptcy. The contractual rules of the licence agreement will not be enforceable against third parties if the licence agreement has not been properly recorded.(10)

How and when does the party filing for insolvency let the counterparty know that it has entered into insolvency proceedings?

Under Luxembourg law, it is not necessarily the party filing for insolvency which informs the counterparty of its financial problem. This information is provided by means of the bankruptcy order and several other publications, as stipulated by Article 466 of the Commercial Code.

Article 466(11) of the Commercial Code sets out rules of disclosure and states that in order for the bankruptcy to be brought to the attention of third parties, the court's bankruptcy order – mentioned in Article 442 of the Commercial Code – must state the newspapers in which it will be published. In Luxembourg, bankruptcy information is published in two newspapers, *Luxemburger Wort* and *Tageblatt*. Without these publications, the bankruptcy cannot be closed.

The bankruptcy order must also be displayed in the judicial district where the bankruptcy was adjudicated and the court's registry will ensure that it appears in the Trade and Companies Register and *Memorial B*.(12) In the event of liquidation, the order will be published in *Memorial C*.(13) The trustee must inform each party concerned by the bankruptcy order (eg, banks where the debtor held accounts) so that they can prevent the debtor from conducting further transactions.

The trustee should contact various institutions and service providers to inform them of the bankruptcy and gather information.(14) These include:

- the Luxembourg I and II and Diekirch Mortgage Offices and the Cadastral Administration, to learn of any immovable property owned by the debtor and the identity of its mortgage creditors;
- the Joint Social Security Centre, to obtain a list of the debtor's employees and their addresses;
- the National Company for Automotive Traffic, to obtain a list of vehicles owned by the debtor; and
- telephone operators, to obtain a list of contracts signed by the debtor.

Moreover, pursuant to Article 30 of Bill 6539, if the debtor decides to stop the performance of an ongoing agreement during the standstill period, it must notify its counterparties accordingly.

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?

Under Luxembourg law, the principle of freedom of contract means that the parties are always free

to amend a contract if they mutually agree to do so. It could therefore be possible to include insolvency-related provisions, provided that they do not infringe on the principle of equality of treatment of creditors, and that such an amendment is not made during the so-called 'hardening period'.

When parties negotiate or draft an IP licence agreement, they rarely determine the impact that insolvency could have on their agreement. Even when this matter is addressed in a termination clause, the clause usually does not consider the needs of the parties with regard to the potential insolvency. Moreover, the insolvency legislation which should be applicable and binding beyond the terms of the contract is often not known at the time.(15)

If insolvency was not contemplated at the time that the licence was entered into, it is necessary to secure the required amendments and review the main IP licences already concluded in order to determine if the protection offered is sufficient in the event of insolvency.(16)

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?

In the event of insolvency, a trustee in bankruptcy is appointed by the court. The role of the trustee is to:

- preserve and administer the estate;
- collect and realise the assets; and
- distribute the proceeds among creditors.

Licence agreements are considered long-term contracts. Therefore, they must be realised by the trustee in bankruptcy, provided that they are transferrable.(17)

If the trustee is free to decide whether to continue or terminate an IP licence agreement (ie, there is no specific termination clause in the agreement and the agreement is not *intuitu personae*), its decision will be guided by the interests of the creditors. Agreements will be terminated in order to prevent a further increase in debt, but there is no obligation for the trustee in bankruptcy to terminate a contract which will not cause the estate's debt to increase. If rights are enforceable *vis-à-vis* third parties and do not increase the liabilities of the estate, the trustee cannot undermine these rights if they are granted in an ongoing agreement. The trustee's right to terminate the agreement will depend on the extent of the licensor's obligations under the agreement. The trustee will always examine the IP licence agreement from the perspective of the company's liabilities, regardless of whether termination of the agreement is favourable to the debt.(18)

Under Luxembourg law, the methods used to determine the value of intellectual property include the following:

- The market approach – the fair market value of the asset is determined taking into account market prices in actual transactions, as well as asking prices for assets that are currently available;
- The cost approach – the reproduction and replacement cost of the asset is used as an indicator of value and the cost of recreating the asset will be used to estimate its value; and
- The income approach – the value of the asset is determined based on the cash flow that it is expected to generate.(19)

In order to determine the fair value of a licence, it is also important to take into account the quality of the IP right itself and its value. This will depend on the level of income potentially generated through use of the technology. It is also important to ensure that the licensee can use the invention in the most optimal way possible, as the fair value of a licence also depends on the licensee.

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

Under Luxembourg law, a debt can be transferred only with the consent of the other party. The assignor will be released from its obligations only if the counterparty agrees. Moreover, the

transferee's rights will be identical to those of the transferor.(20)

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Endnotes

- (1) Bill 6539 on business continuity and modernisation of the bankruptcy legislation was passed on February 26 2013 and is currently before the Council of State.
- (2) Only the Belgian Copyright Act 1994 contains provisions on IP rights in the event of insolvency.
- (3) C Berckmans, I Dupuis and J-C Troussel, *Insolvency and IP License Agreements in Belgium*, Les Nouvelles, 229-235; International Association for the Protection of Intellectual Property (AIPPI), *IP Licencing and Insolvency*, national group report, Belgium, May 2014.
- (4) As Bill 6539 is based on the Belgian Business Continuity Act 2009, several mentions to Belgian law are made herein.
- (5) On the contrary, a contractual provision providing that in the event of bankruptcy the licence must be continued will be considered as having no effect. See also AIPPI, *IP Licencing and Insolvency*, *supra* note 3.
- (6) C Berckmans, I Dupuis and J-C Troussel, *supra* note 3.
- (7) *Supra* note 3.
- (8) *Id.*
- (9) *Id.*
- (10) *Id.*
- (11) This article will be slightly modified by Bill 6539.
- (12) *Memorial B* is a Luxembourg administrative and economic publication for individual administrative acts.
- (13) *Memorial C* is a Luxembourg administrative publication for companies and associations containing publications made further to the Act of August 10 1915 and the Act of April 21 1928.
- (14) M Maillet, lecture on *Gérance des faillites et liquidations* (management of bankruptcies and liquidations), CCDL 2015-2016.
- (15) C Berckmans, I Dupuis and J-C Troussel, *supra* note 3.
- (16) *Supra* note 3.
- (17) AIPPI, *IP Licencing and Insolvency*, *supra* note 3.
- (18) *Id.*
- (19) Direct tax administration, circular on the 50bis regime, March 5 2009.
- (20) AIPPI, *IP Licencing and Insolvency*, *supra* note 3.

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