

American-style licences could protect tech licensees

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Canada's reluctance to evolve intellectual property protections into the new millennium could be creating trepidation for foreign clients in more ways than one, says one intellectual property specialist.

The lack of insolvency safeguards available to companies interested in acquiring licences to Canadian technologies is enough to cause clients to worry – especially those based south of the border, says Mirko Bibic, an IP specialist at Stikeman Elliott LLP and managing partner of the firm's Ottawa office.

The United States Bankruptcy Code includes protection for more licensees of intellectual property while uncertainty prevails in Canada.

For example, Bibic cites a transaction he worked on in which an American client was confounded that no guarantees could be provided in the event the licensor became insolvent.

Bibic says the "U.S. licensee was grappling with this issue prior to a potential insolvency. Frankly this client was doing the right thing. They were entering into a significant licence agreement, a development agreement with a software developer in Canada."

The Canadian company was quite small but had the technology Bibic's clients needed.

"In the U.S., they're more rigorous about these things and before entering into the licence agreement, they wanted to take every step possible to soften the blow in the event that this small tech company went bankrupt," says Bibic.

“They had a hard time understanding because they get their U.S. advice that says, ‘This is what you need to do,’ and in Canada, we tell them, ‘Well, we don’t know what’s going to happen, we don’t know if you’ll be protected.’”

He says he tells clients: “All we can do is advise you on taking these steps that might soften the blow and make things a little easier for you.

“But at the end of the day, we can’t promise anything.”

It’s not a blatant oversight by Canadian lawmakers, but rigorous interpretation along with an exploding market of IP products vying for licences and sales is creating more questions than answers.

In a paper outlining the problems, Bibic’s colleague Ashley Taylor, a bankruptcy and insolvency specialist at the firm’s Toronto office, suggests the current laws are “fraught with uncertainty.”

Taylor examines rights and protections offered under various IP licensing avenues and assurances under the Bankruptcy and Insolvency Act (BIA).

In the paper’s introduction, he says “licensees are placed in a precarious position as not only does there appear to be few legal safeguards for them, none of the self-help solutions suggested in the literature appear to offer a complete solution.”

He later notes that within the BIA, “by virtue of its special purposes and attendant procedures, the bankruptcy process creates a significant risk for licensees *vis-à-vis* their licensed rights.

“The primary concern for licensees is what will happen to their rights under the licence agreement. Will their rights in the technology continue or will they be terminated? And if they are terminated, what remedies, if any, do they have?”

Taylor concurs, “The answers to these questions are unclear.”

First, he says, the BIA “is silent” with respect to licensed rights, as there are no provisions expressly dealing with licences held by the bankrupt.

Secondly, “there is little case law on licensing rights in the context of licensor bankruptcy and so judicial guidance on this subject is minimal.”

Throughout the paper – prepared for a “business of software” seminar hosted by the firm and KPMG – Taylor and contributing author Karen S. Park provide a

comprehensive examination of bankruptcy proceedings and their particular affect on technology license agreements.

And while it's not a new concern, nor exclusive to the licensing of technology, it is perceived to be a growing one in the industry and in need of legislative remedies soon.

In the meantime, Taylor suggests some steps licensees can take, at the outset of entering into agreements, that can offer limited protection. Thorough due diligence of affairs of the licensor will help assess insolvency risks, for example.

The paper also notes, "Some commentators have begun advocating obtaining a proprietary interest in the intellectual property by way of assignment or partial assignment," (which is accommodated in the U.S. act).

But even for a licensee that negotiates such a position, there are limitations. "While this may offer some protection against a trustee in bankruptcy who cannot take property that does not belong to the bankrupt, it may not be effective against secured creditors ..."

Taylor also explains how source code escrow agreements – secured with an escrow agent – can provide a practical solution to risks posed by bankruptcy and secured creditors, and give licensees some measure of security to continue doing business.

Taylor concludes, however, "ironically enough, perhaps licensees' greatest hope for reform of the law in this area lies in the fact that the law is so fraught with uncertainty.

"Such uncertainty creates a risk of commercial chaos, in the words of some commentators," but he suggests, "the materialization of such chaos may prompt legislators to make changes."

For his part, Bibic says he's uncertain why the issue hasn't been addressed. He wonders if legislators disagree technology and IP should be treated differently than other assets or rights. Or, he says, "perhaps there's a view that the legislation should remain neutral."

As challenges persist, the conundrum is requiring IP lawyers to broaden their scope of expertise. Bibic says IP specialists are increasingly called on to provide advice in areas beyond traditional focus.

"It's an indication of the kind of intellectual property advice a lot of us are being asked to provide now," he says, reflecting on the perception a decade or so ago that

IP lawyers generally limited their focus on trademark, copyright, and patent law matters.

“We’re more and more frequently called upon to give commercial advice,” he says.

“I would say it’s adding a different element to the IP practice that you wouldn’t see years ago because now we’re called up on mergers and acquisitions, work on commercial agreements, software developing agreements, licences, and these types of bankruptcy issues as well.”