DID CHRISTMAS ARRIVE EARLY FOR LICENSEES?

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On September 18th, 2009, various provisions contained in the *Bankruptcy and Insolvency Act* (the "BIA") and *Companies' Creditors' Arrangement Act* (the "CCAA") were amended in such a way as to enhance the rights of licensees who use intellectual property under license agreements.

Amongst other things, the BIA and the CCAA are federal acts which permit debtors who are in trouble financially to continue operating in the market (sometimes only temporarily) by restructuring their financial affairs and striking a deal with their creditors.

Put simply, both the CCAA and the BIA require debtors to reorganize themselves and prepare a plan (referred to as a Proposal under the BIA and a Plan of Arrangement under the CCAA) outlining the manner in which the debtors intend on paying off their debts. Plans are subject to creditor and court approval.

It is important to note that the CCAA is restricted to debtors who owe more than five (5) million dollars to their creditors. Those owing less than five (5) million dollars are required to strike their deals in accordance with the terms and provisions contained in the BIA.

The purpose behind the legislative "deal making" is to permit debtors to get back on their feet, become more financially viable and avoid bankruptcy. As part of the reorganizing process, both the BIA and the CCAA allow debtors to terminate agreements, including license agreements, to which they are a party. Terminations are not however automatic. Rather, they are subject to a host of formalities contained in the BIA and CCAA.

Before the amendments previously mentioned came into effect, it was accepted that the debtors/licensors seeking to reach an agreement with their creditors had the right to terminate license agreements and, in so doing, compel their licensees to stop using the intellectual property licensed under the terminated license agreement. Licensees who, all of a sudden, found themselves in a situation where they could no

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longer legally make use of the licensed intellectual property were without options. In fact, the only recourse available to licensees under the BIA and CCAA was the filing of a claim in respect of damages suffered as a result of the termination of the license agreements.

The situation following the enactment of the amendments is quite different. While the amendments do not, in any way, obliterate a debtor's/licensor's right to terminate license agreements, debtors/licensors are now required to respect a few more formalities. More importantly, under the amendments, debtors/licensors are no longer able to force licensees to cease all use of the licensed intellectual property. Indeed, the BIA and CCAA, in a situation of restructuring, allow the licensees to continue to use the licensed intellectual property even if the license is disclaimed by the licensors and if the licensees continue to respect the provisions contained in the license agreement regarding the use of the licensed intellectual property.

Essentially, licensees are required to uphold the provisions contained in the license agreements if they want to continue to use licensed intellectual property whereas debtors/licensors are not. Therefore, despite the amendments, licensees may find themselves in a situation where they can use the licensed intellectual property but can do nothing to make sure that its validity and value are maintained. Of course, it all depends on what is stipulated in the license agreements.

Other provisions found in the BIA and CCAA grant the courts jurisdiction to allow trustees or receivers to sell the assets (including licensed intellectual property) of insolvent debtors/licensors. Moreover, Canadian law permits the sale of such assets to be made free and clear of any security or contractual restraint. In other words, notwithstanding the amendments made to certain provisions contained in the BIA and CCAA, licensees may find themselves in a position where they have lost (through no fault of their own) the right to use the licensed intellectual property following its acquisition by a third party.

To conclude, according to the amendments made to the CCAA and BIA, the rights of licensees will only be maintained in those cases where debtors/licensors terminate the license agreements while undergoing restructuring in accordance with the CCAA or BIA. Therefore, as it stands now, licensees have no "legislative" right to continue to use licensed intellectual property following the termination of license agreements by bankrupt licensors.

It was initially believed that the CCAA and the BIA would be amended so that the situation in Canada with respect to license agreements and bankrupt licensors would parallel US practice, which grants licensees the right to decide whether they wish to see their rights under license agreements maintained following the actual bankruptcy of licensors.

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Thus, in order for Canada and the US to be on an equal footing, the CCAA and BIA would need to be amended in such a way as to protect the rights of licensees in the event of bankruptcy of the licensor and not only during a situation of restructuring.

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