



## **INTELLECTUAL PROPERTY AND DEBT COLLECTION: HOW TO TOUCH ASSETS THAT ARE INHERENTLY INTANGIBLE IN CANADA**

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The realities surrounding the practice of debt collection can be best exemplified by the lonely creditor, always confronted with the possibility that his debtor will either one day be in financial disarray (and therefore have no assets to pay off his debts), or is simply feigning being in financial disarray (and therefore still not pay his debts). In either case, the creditor is tasked with the ongoing challenge of attempting to collect what can maybe be salvaged, while balancing the expenses associated with such collection activities. The complexity of this endeavour in today's market is compounded by a globalised economy where creditors are often chasing debtors from one side of the ocean to the other.

While most jurisdictions readily recognize different mechanisms allowing a creditor ready access to assets (seizures, etc), it can also be said that today's accent on intangible rights has made it such that we are seeing more and more questions regarding the place of IP rights as an integral part of a person's asset portfolio and therefore, of interest to the practice of debt collection. The status of intellectual property as a traditional form of property for use in debt collection is important, varies from jurisdiction to jurisdiction, and is not necessarily compatible with all legislative mechanisms established to recover debt.

Certain situations can arise where the distinction between the different layers of intangible property are necessary to establish what can, and cannot be collected as payment of debt, especially in a bankruptcy situation. The present article attempts to give a generalized overview of two interesting debt collection mechanisms benefiting intellectual property owners that are available in Canada.

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## 1) Trustee Having the Right to Sell (not always)

When speaking of debt collection, you are more often than not talking about bankruptcy. In Canada, bankruptcy is governed the *Canadian Bankruptcy and Insolvency Act*.<sup>1</sup> What is particular about bankruptcy in Canada with respect to IP is that the Act establishes specific mechanisms allowing for patent or copyright holders to regain an interest in their property or works, which were previously sold or assigned, and that are currently vesting with the trustee of a Bankrupt.

With respect to patents, if patented property sold to the Bankrupt is currently vesting with a trustee - this property potentially being subject to certain contractual restrictions or limitations - the trustee would not be bound by these restrictions and could decide to sell and dispose of the patented materials, free and clear of any previously existing limitations.<sup>2</sup> However, the manufacturer or vendor of these patented materials may not like that their products could be released free into the wild, and can object to the trustee's disposal/sale of these materials by putting them on written notice of their right to purchase back the articles at the initial invoice price, subject to any reasonable deductions. In so doing, a manufacturer can effectively step in and react before their patented materials, previously sold under certain permissions and restrictions, gets into the hands of an unwanted third party.

Concerning copyrights, the Act also specifically provides for a mechanism that governs any copyright protected work that may have been assigned to a publisher, printer, firm, person, and so on who is now bankrupt. In this situation, these assigned works may revert back to the author<sup>3</sup> if certain conditions are met.

For example, if the copyrighted work has yet to be published or put on the market at the time of bankruptcy, and no expense has been incurred in connection to the work, it reverts back to the author and any contractual agreement between the author and the bankrupt is thereby void and terminated. However, if expenses have in fact been incurred by the bankrupt (the work has been put into type), the work will only revert back to the author upon payment of these expenses.

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<sup>1</sup> Bankruptcy and Insolvency Act, RSC 1985, c B-3

<sup>2</sup> S. 82(1)

<sup>3</sup> S. 83

In the event that copies of the work are indeed on the market at the time of bankruptcy, the trustee can sell/authorise/reproduce copies of the published work in exchange for the payment of royalties to the author. However, the trustee cannot assign any copyright or any interest without the consent of the author, except under terms guaranteeing the author payment (royalties). Any contract or agreement between the author or their heirs and the bankrupt shall then normally terminate and be void.

Consequently, in light of the above, if you are intellectual property rights holder in Canada and have assigned/sold either patent or copyrights to a person who is now currently involved in bankruptcy proceedings, it would be prudent to see if you benefit from these mechanisms, thereby removing your protected property from the hands of third party creditors that may be at the front of the line, waiting to have a first grab at your intellectual property.

## 2) Seizure before Judgement of Intellectual Property in Québec

In Canada, the court system is naturally governed by jurisdiction, and practice can vary province by province. One particularity of these different practices is that if a certain creditor/debtor situation has become litigious, there is a useful instrument available to creditors in the province of Québec that is generally not available in most other common law jurisdictions in terms of debt collection in relation to intellectual property. Known as a “seizure before judgement”, this procedure is used to ensure that assets are available to satisfy a creditor’s debt pending the outcome of litigation and can only be granted in certain specific situations.<sup>4</sup>

In Québec, court procedure is governed by the Québec Code of Civil Procedure<sup>5</sup> which provides that a plaintiff may seize with the authorization of a judge the “property” of a defendant before judgement if there is “reason to fear that without this remedy the recovery of his debt may be put in jeopardy”.<sup>6</sup>

However, there is also more specific relief provided for seizing movable property, as a plaintiff may also seize before judgement: (1) movable property which he has a right to revendicate [...], (4) the movable property which a provision of law permits him to seize in order to assure the

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<sup>4</sup> *Walpert c. Crystal Greetings Ltd., R. & F.*, vol. 4, 437 (1979-CQA).

<sup>5</sup> RSQ, c C-25

<sup>6</sup> S 733 CPC

exercise of his rights upon it, (5) the movable property which a provision of law permits him to seize in order to assure the exercise of his rights upon it”<sup>7</sup>.

Normally, for other forms of property, in order to exercise such a right, one must put forward allegations against the debtor that approach fraud or actions resembling fraud.<sup>8</sup> It is therefore important to note the difference in the criteria between “property” and “movable property” in Québec. With regards to property, the courts need to consider if “the recovery of the debt may be put in jeopardy.” Conversely, with regards to movable property, and with IP being considered incorporeal property and therefore moveable property, the creditor does not need to argue that the debt owed to him would be in danger without a seizure before judgement. He must simply meet at least one of the conditions set forth in the section discussed above.<sup>9</sup> For example, the creditor wishing to seize intellectual property in the case of debt collection would only have to demonstrate that the intellectual property constitutes property which he has a right to “revendicate”.

This does not apply to all forms of intellectual property and the only class of IP expressly excluded by the courts are trade secrets.<sup>10</sup>

As such, the seizure before judgement of intellectual property can be a powerful negotiation tool in debt collection proceedings as such a seizure may invariably stop the seized person’s ability to properly operate their commercial business, if valuable intellectual property assets are successfully seized.

The above discussed mechanisms present a general view as to how Canada allows for certain intellectual property rights to be specifically excluded from debt collection during bankruptcy proceedings, while at the same time serving as collateral in the form of a seizure before judgement in Québec. It will be interesting to see if other countries have legislated similarly, taking into account the specific characteristics of intellectual property rights who are, as we all know, not just intangibles like any other.

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<sup>7</sup> S 734 CPC

<sup>8</sup> *St. Lawrence Mechanical Contractor Limited c. Acadian Consulting Company Limited*, (1974) C.A. 236; (1974) 9 R.J.T. 131 (C.A.)

<sup>9</sup> *Champagne c. Bouchard*, (1987) R.D.J. 494 (C.A.).

<sup>10</sup> *Ghaly Elia Gideon and Gideochem Inc. v. Tri-Tex Co. Inc.* [1999] R.J.Q. 2324 (C.A.); *Intercontinental Forest Products S.A. c. Rugo, A.E./P.C.* 2004-3140 (C.Q.).