

## Terminating Licences of IP Rights

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Status: **Maintained** | Jurisdiction: **Canada**

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A Practice Note discussing the key legal issues that may arise under Canadian law when terminating a licence of intellectual property rights. This Note provides guidance as to whether, when and how to terminate an intellectual property licence, and how to manage the associated risks.

Termination is part of the life cycle of virtually every intellectual property (IP) licence. Issues common to various IP rights can arise when terminating any IP licence. Incorrect termination of a licence can expose a party to a claim for breach of contract. Understanding how to manage these issues can be crucial.

The governing law of the licence is significant, as are the rules and procedures for terminating IP licences in various global jurisdictions. There are unique features of the laws in Canada relating to performance and breach.

This Practice Note considers the most common scenarios, including:

- Expiry of the licence (see Expiry).
- Termination on notice:
  - termination for cause; and
  - termination for convenience.

The Note also explains how to serve a notice of termination and the steps to consider following termination.

For more information on IP licensing, including a collection of IP licence agreements, see [Intellectual Property Licensing Toolkit](#).

### Expiry

In general, neither party to a licence needs to take action upon the expiry of the licence.

Licence agreements should include terms relating to the expiry of the licence. For example, licences may include an:

- Automatic renewal (also known as an evergreen clause).
- Automatic renewal with a negative option (i.e., the licence may renew unless notice otherwise is given).

Licences that are silent on their duration usually do not expire until the expiry of the IP right, typically the last right to expire if more than one right is licensed. Similarly, royalties usually cease on the expiry of the licensed right (see *Lauren International, Inc. v. Reichert*, 2008 CarswellOnt 2731 (Ont. C.A.); leave to appeal refused 2008 CarswellOnt 6276 (S.C.C.)).

Licences that expire prior to the expiry of the IP right normally do not entitle a former licensee to use the IP after expiry; namely, infringement of the licensor's rights may occur post-expiry in the event the former licensee wrongfully continues to use the licensed right.

An obligation to pay royalties may continue after the expiry of the licence in certain circumstances.

When a licence covering confidential information expires, a licensee who has relied on the information and started a new business based at least in part on the confidential information, in some circumstances, may use the information after the licence has been terminated, subject to compensation to the licensor (see *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, 1999 CarswellBC 77 (S.C.C.)).

An injunction, being an equitable remedy, will not automatically be granted upon termination of the licence, for example, if the information is not particularly valuable or easily replicated.

A patent licence agreement may validly include a term precluding the licensee from challenging the validity of the patent during the term of the licence. In general, a Canadian licensee is estopped from contesting the validity of the licensed IP right until after the licence has expired. Upon expiry of the licence, the licensee may challenge the validity of the IP right, unless the licence agreement precludes any such challenge. Although a licensee is estopped from challenging the validity of a patent during the term of the licence, the licensee is not precluded from

showing that on a proper construction of the patent, a product or process does not infringe the patent (see *Coyle v. Sproule*, 1941 CarswellOnt 45 (Ont. H.C.); *Deering Milliken Research Corp. v. Louisville Spinners Ltd.*, 1971 CarswellQue 238 (C.S. Que.), affirmed 1972 CarswellQue 166 (C.A. Que.); *Rymland v. Regal Bedding Co.*, 1966 CarswellMan 58 (Man. C.A.); *Dableh v. Ontario Hydro*, 1993 CarswellNat 372 (F.C.), at paragraphs 125-127, reversed on other grounds 1996 CarswellNat 735 (F.C.A.), leave to appeal refused 1997 CarswellNat 3240 (S.C.C.); *Indiana Manufacturing Co. v. Smith*, 1904 CarswellNat 6 (Can. Ex. Ct.); *Loudon v. Consolidated Moulton Trimmings Ltd.*, 1956 CarswellOnt 39 (S.C.C.), at paragraph 80).

For more information on patent licence agreements, see [Practice Note, Patent Licence Agreements](#).

### Terminating a Licence

A licence agreement may include terms specifying when the agreement can be terminated. Where a licence does not have a specific duration or specific termination provisions, generally it is terminable on reasonable notice.

#### Termination on Reasonable Notice

Where a licence for an unspecified duration does not explicitly include a right to terminate without cause, it is usually terminable on reasonable notice. Determining if a notice period is reasonable is based on the circumstances at the time of the notice, rather than to those existing when the contract was made (see *Cheerio Toys and Games Limited v. Dubiner*, 1965 CarswellNat 51 (S.C.C.); *Hillis Oil & Sales Limited v. Wynn's Canada, Ltd.*, 1986 CarswellNS 147 (S.C.C.), at paragraph 67; *Winter Garden Theatre Group AB v. Millenium Productions Ltd.*, [1947] 2 All E.R. 331 (U.K. H.L.); *R. v. Canadian Pacific Railway*, 1931 CarswellNat 2 (Jud. Com. of Privy Coun.); *Cornish v. Stubbs* (1870), 39 L.J.C.P. 202 (C.P.D.); *Mellor v. Watkins* (1874), 23 W.R. 55 (Q.B.D.); *Martin Baker Aircraft Co. Ltd. v. Canadian Flight Equipment Ltd.* (1955), 72 R.P.C. 236; *Western Equipment Ltd. v. A.W. Chesterton Co.*, 1983 CarswellBC 181 (B.C. S.C.); *Bernard-Norman Specialties Co. v. S.C. Time Inc.*, 1989 CarswellOnt 918 (Ont. H.C.); *Treen Gloves & Safety Products Ltd. v. Degil Safety Products (1989) Inc.*, 1990 CarswellBC 896 (B.C. S.C.). See also *Blok-Lok Ltd. v. Helifix Ltd.*, 2001 CarswellOnt 734 (Ont. S.C.J.).

A reasonable length of notice is to be determined from the general nature and circumstances of the situation, and the established practice, if any, in the trade or business. It will be determined in part by the obligations incurred and the commitments made by the terminated

party in fulfilling the terms of its contract with its principal (see *Clarke, Irwin & Co. v. George G. Harrap & Co.*, 1980 CarswellOnt 119 (Ont. H.C.)).

The factors considered to be relevant to the length of reasonable notice include the:

- Length and type of relationship between the parties.
- Extent of the sales force handling the defendants' products, including the efforts made and the results achieved.
- Financial importance to the plaintiffs or the defendants' exclusive agencies.
- Defendants' requirement that the plaintiffs acquire their inventory.
- Time required for the plaintiffs to acquire and re-establish sales in a replacement line of products.

(See *Western Equipment v. A.W. Chesterton Co.*, 1983 CarswellBC 181 (B.C. S.C.).)

#### Termination by Agreement

Parties to an agreement may terminate a licence at any time by mutual consent and upon such terms as may be agreed.

If the agreement specifically deals with termination by agreement, then the agreed terms must be complied with, such as a requirement that such terms must be:

- In writing.
- Signed by both parties.

In the case where there is no provision dealing with termination, the parties can terminate or vary the licence by mutual consent, preferably in writing signed by both parties.

#### Termination for Breach

A licence agreement may include specific terms dealing with termination for breach. The discussion in this section concerns the law generally applicable in the absence of specific terms dealing with causes for termination.

A licence is terminable for breach of essential conditions (see, for example, *Fomento Ltd. v. Selsdon Fountain Pen Co.*, [1958] 1 All E.R. 11 (U.K. H.L.)).

Where a licence is terminable for breach, there must in fact be a breach, and care should be taken that the notice of termination to the other party is proper and sufficient.

A party seeking termination for breach must perform their obligations in the agreement in good faith, both honestly and reasonably. Parties must not make materially false statements to the other party or otherwise knowingly mislead the other about matters directly linked to the performance of the contract (see *C.M. Callow Inc. v. Zollinger*, 2020 CarswellOnt 18468 (S.C.C.) (Callow) citing *Bhasin v. Hrynew*, 2014 CarswellAlta 2046 (S.C.C.) (Bhasin)).

Breach of the terms of a licence agreement may not justify termination if the breach falls short of frustration of the contract (*Hong Kong Fir Shipping Ltd. v. Kawasaki Kisen Kaisha, Ltd.* [1962] 2 QB 26) (Hong Kong Fir), although damages may be an appropriate remedy.

The three main categories for termination for cause are:

- Conditions that, if breached, justify the deprived party to terminate the agreement.
- Warranties that, if breached, do not justify termination.
- Conditions where the right to terminate depends on the seriousness of the consequences of the breach.

Breaches that deprive the party of substantially the whole benefit of the licensed right generally are considered fundamental breaches that usually give the deprived party the right to terminate.

Factors that may help determine whether the consequences of a breach are sufficient to justify termination include the:

- Quantitative ratio of the party's obligation not performed to the obligation as a whole (*Maple Flock Co. v Universal Furniture Products Ltd.*, [1934] 1 K.B. 148 (Eng. K.B.) (Maple Flock)).
- Seriousness of the breach to the deprived party (*Maple Flock*).
- Probability of repeated breach (*Maple Flock*).
- Seriousness of the consequences of the breach to the deprived party in the particular case (*Hong Kong Fir*).
- Relationship of the part of the obligation performed to the whole obligation (*Fairbanks Soap Co. v. Sheppard*, 1953 CarswellOnt 133 (S.C.C.) (Fairbanks Soap)).

Inequitable revocations may be ineffective, where, for example, the grantee has reasonably relied on continuation of the grantor's consent (see *Dorling v. Honnor Marine Ltd.*, [1964] Ch. 560 (Eng. Ch.), at paragraphs 567-668, undisputed on appeal [1965] Ch. 1 (Eng. C.A.), at paragraph 13).

If the licence specifies a certain time, it cannot be revoked without due cause (see *Ward v. Livesey* (1888), 5 R.P.C.

102 and *Guyot v. Thomson* [1894], 3 Ch. 388 (Eng. C.A.)). Due cause includes a breach going to the essence of the contract (see *Patchett v. Sterling Engineering Co. Ltd.* (1953), 70 R.P.C. 269, at paragraph 272).

### Termination Under the Terms of the Licence

An IP licence agreement should include terms expressly specifying some or all of the following matters:

- The term.
- Events that will justify termination, including achievement of certain milestones.
- Lapse or invalidity of patent or industrial design rights.
- Disclosure of confidential information.
- Unabated third-party infringement.
- Termination grounds.
- Remediation rights.
- Notice provisions relating to breach of the agreement.

An IP licence agreement should provide for the method of termination between the parties, including the rights and obligations of the parties upon termination. Clear terms for termination are important considering the parties eventually may become hostile to one another. The language of the termination terms should be carefully evaluated before any decision is taken to terminate.

Upon termination, the licensee may need to provide for orderly winding down and exhaustion of any existing product inventory. Conversely, it is usually in the interest of the licensor that all licensed activity be terminated as quickly as possible, considering that the licensor may wish to grant a licence to a third party.

Termination terms may allow the licensor to retain the right to purchase any or all of the licensee's existing stock instead of allowing for sale of inventory by the licensee to third parties. This may be of particular importance in trademark licence agreements, where the licensor's primary concern is the maintenance of the integrity of the marks, and the channels of trade could be important in protecting the image projected by the licensed trademark. For more information, see [Practice Note, Trademark Licence Agreements](#).

Termination terms may also require that the licensee return any materials that embody licensed know-how. This provision may operate in tandem with the provision requiring the return or destruction of all confidential information.

It may also be advisable to specify in the termination terms whether or not any of the terms and conditions of the agreement are intended to survive termination or expiration, and, if so, for how long.

Agreements may specify provisions relating to the treatment of confidential information, representations and warranties, and indemnity provisions. In addition, the parties may wish to specify that any unfulfilled obligations existing at the time of termination (for example, the payment of royalties accrued to the date of termination) will continue to survive until they have been fulfilled.

Terms may provide for automatic termination where, for example, the licensee ceases operation of the business to which the licence relates (see *Zippy Print Enterprises v. Pawiluk*, 1994 CarswellBC 4 (B.C. C.A.)).

Inclusion of particular grounds for termination usually do not automatically exclude other grounds.

### Termination for Convenience on Written Notice

Although a licence agreement may provide for termination by a party by simply giving notice, this is not common. More often, a licence can be terminated if both licensor and licensee agree.

### Termination Following a Change of Control of the Licensee

IP licences may include terms allowing for termination following a change of control of the licensee. This may include cases where confidential information is licensed, or where the licensor would not wish a competitor to access the licensed rights.

### Termination Due to the Invalidity or Expiry of the Relevant IP Rights

The invalidity of the underlying IP right in a licence agreement does not necessarily terminate the licence agreement. Although this is an unusual, if not a rare occurrence, it has been held that, if the licence so requires, royalties remain payable despite the invalidity of the patent rights (see *Trubenizing Process Corp. v. John Forsyth, Ltd.*, 1943 CarswellOnt 61 (S.C.C.)). For more information on patent licence agreements, see [Practice Note, Patent Licence Agreements](#).

In the case of a trademark licence, the trademark may represent valuable goodwill even if the trademark registration is invalidated; the invalidity of a registered trademark may not extinguish the licensor's rights in the mark. For more information on trademark licence agreements, see [Practice Note, Trademark Licence Agreements](#).

The Competition Bureau may scrutinize any activity that creates, enhances, or maintains a right-holder's market power, or that improperly substantially lessens or prevents competition. Market power (the ability to control output or prices) rarely arises from mere ownership of IP unless ready substitutes are not available. Where market power exists, a right-holder that licenses its IP beyond the expiry period or requires the licensee to buy unlicensed products from the licensor, may find such conduct investigated by the Competition Bureau. By way of example, a standards-essential patent pool arrangement may face difficulties with the Competition Bureau where any invalid patents are not removed from the pool or where patents that are not essential to the standard are included (see [Intellectual Property Enforcement Guidelines](#), Competition Bureau, March 13, 2019).

### Termination if the Licensee Challenges the Validity of the Licensed IP Rights

A licensee generally is estopped from contesting the validity of a licensor's IP rights during the subsistence of the licence agreement, whether by the express terms of the contract or by implication from the licensor/licensee relationship (see *Curtis Wright Corporation v. The Queen*, [1968] 1 Ex Ct 519 (Ex Ct); *Deering Milliken Research Corp v. Louisville Spinners Ltd*, 1971 CarswellQue 238 (C.S. Que.); affirmed 1972 CarswellQue 166 (C.A. Que.); *Rymland v. Regal Bedding Co.*, 1966 CarswellMan 58 (Man. C.A.)). Although this would be unusual, a failed attempt by the licensee to dispute the validity of the licensed right is not of itself a ground for termination.

Such estoppel generally does not exist after termination of the licence agreement, but if there is a term in a licence agreement precluding the licensee from disputing validity of the IP right after termination of the licence, the prior agreement may be enforced to preclude such challenge (see *Coyle v. Sproule*, 1941 CarswellOnt 45 (Ont. H.C.) and *Campbell v. G Hopkins & Sons (Clerkenwell) Ltd.* (1931), 49 R.P.C. 38 (Eng. C.A.)).

### Termination Due to the Insolvency or Bankruptcy of the Licensee

Many licence agreements provide the licensor with an immediate right to terminate upon the bankruptcy or insolvency of the other party. That said, the effect of a bankruptcy or insolvency on the treatment of IP rights, including licence rights, is somewhat uncertain.

The Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3 (BIA) and the Companies Creditors Arrangement Act, R.S.C. 1985, c. C-36 (CCAA) give trustees in bankruptcy

broad rights to deal with assets of any bankrupt party. An IP licence in general is a contractual right rather than a property right. A trustee in bankruptcy of the licensee is entitled to disclaim the licence and, in some cases, depending on the licence, to transfer the licence to a third party.

Licence agreements often give the licensor the right to terminate the licence if the licensee commits an act of bankruptcy, and that result might be automatic if the licence so provides. The mere filing by a licensee of a Notice of Intention to Make a Proposal (NOI) in bankruptcy, or the filing of a proposal, in general does not justify the licensor terminating the licence. If the licensor suspects the licensee is insolvent or is about to be insolvent, it is advisable to consider the possibility of terminating the licence for cause (if such cause exists) before the licensee commits an act of bankruptcy. Assignability of licences by a trustee in bankruptcy may be possible provided such assignments are not inconsistent with the licence agreement.

### Termination Due to the Insolvency or Bankruptcy of the Licensor

The effect of a bankruptcy or insolvency on the treatment of IP rights, including licence rights, are somewhat uncertain in Canada.

In 2009, amendments were made to the BIA and the CCAA to alleviate concerns that IP licences can be terminated under the BIA pursuant to a proposal proceeding and the CCAA pursuant to a restructuring with grave consequences to the licensee.

Section 65.11(7) of the BIA was added, which states:

“If the debtor has granted a right to use intellectual property to a party to an agreement, the disclaimer or resiliation does not affect the party’s right to use the intellectual property — including the party’s right to enforce an exclusive use — during the term of the agreement, including any period for which the party extends the agreement as of right, as long as the party continues to perform its obligations under the agreement in relation to the use of the intellectual property.”

At the same time, a parallel amendment was made to the CCAA (section 32(6), CCAA).

On November 1, 2019, further changes to the BIA and CCAA came into effect, affording expanded protections to IP licensees upon a licensor’s bankruptcy or insolvency with the coming into force of the *Budget Implementation Act, 2018, No. 2, S.C. 2018, c. 27*, pursuant to Bill C-86, which received Royal Assent on December 13, 2018. In

particular, the following further statutory protections came into effect in addition to section 65.11(7) of the BIA and section 32(6) of the CCAA for a licensee to continue to use the IP under a licence agreement, provided it continues to perform its obligations under the agreement in relation to the use of the IP:

- When a licensor restructures its affairs under the BIA or the CCAA and its assets, including the licence agreement, are sold as part of the restructuring, the sale of which is approved by the court (section 65.13(9), BIA and section 36(8), CCAA).
- If the trustee in bankruptcy either terminates the licence agreement or sells it to a third party (section 72.1(1) and (2), BIA).
- In the event that a receiver terminates or sells the licence agreement (section 246.1(1) and (2), BIA).

The provisions under the BIA and the CCAA generally enable the insolvent licensor (or its trustee in bankruptcy) to disclaim (or, in Québec, resiliate) any agreement to which it is a party upon the commencement of the proposal proceedings under the BIA or a restructuring under the CCAA. However, where the licensee of IP continues to perform its obligations under the relevant agreement in relation to the use of the IP, the licensee will have the right to continue to use the licensed technology and to enforce its use, irrespective of whether the licence is exclusive or non-exclusive.

The licensee’s right to use the IP pursuant to these sections of the BIA and the CCAA continues for the duration of the original term of the IP licence and for any unilateral extensions in favour of the licensee and on the same terms, for example, exclusive use. Neither the BIA nor the CCAA define the terms “intellectual property” or “use”. Further, the extent of the “obligations under the agreement in relation to the use of the intellectual property” has not been clarified.

For more information on amendments to the BIA and CCAA under Bill C-86 that became effective on November 1, 2019, and afforded added protections to IP licensees, see [Legal Update, Greater Protection for Lenders Financing Companies That Rely on Intellectual Property Licensed from Third Parties](#).

The BIA and CCAA only make the disclaimer (or resiliation) ineffective with respect to the licensee’s right to use the IP. In contrast, the US Bankruptcy Code (US Code), 11 U.S.C. §§ 101 to 1532, provides that, if a trustee or Chapter 11 debtor in possession disclaims an IP licence, the licensee may elect to either:



- Treat the licence as terminated (section 365(n)(1)(A), US Code).
- Retain all of its rights under the licence or under any agreement supplementary to the licence, including the right to enforce an exclusivity provision, for the duration of the agreement (section 365(n)(1)(B), US Code).

For more information on the US Code with respect to licences in the US, see [Legal Update, Protecting Licensees and SaaS Customers Against Software Licensor or Provider Bankruptcy](#).

For more information on the parties' rights, remedies, and risks in IP licensor bankruptcy situations, see [Standard Clause, General Contract Clauses: Effect of Licensor Bankruptcy](#).

For more information on the special treatment that IP holders and licensees receive within formal insolvency proceedings under the BIA and CCAA, see [Practice Note, Treatment of Intellectual Property in Insolvency](#).

### Termination for Any Breach

It is unlikely that a court would give effect to a termination clause allowing termination of the agreement for "any breach", since this clause could be draconian if relied upon in connection with trivial and non-repetitive breaches. It is more likely that a court would consider the entire context of the breach in view of the language of the agreement. Damages could be an alternative to termination.

### Termination for Material Breach

There is some ambiguity in the term "material breach" in Canadian law. It is conceivable that "material breach" can be regarded as synonymous with "repudiatory breach" (see *Nowlan v. Midland Transport*, 1996 CarswellNB 74 (N.B. C.A.)).

There are other cases where "material breach" has been identified to include both substantial and non-substantial breaches (see *L. Schuler A.G. v Wickman Machine Tool Sales Ltd.*, [1972] 2 All E.R. 1173 (Eng. C.A.), affirmed [1973] 2 All E.R. 39 (U.K. H.L.)).

A breach that is "substantial" or "goes to the root of" the contract is often also described as a material breach (see *Guarantee Co. of North America v. Gordon Capital Corp.*, 1999 CarswellOnt 3171 (S.C.C.)). Agreements generally include termination clauses that define materiality. These clauses should include a clear definition of what constitutes a "material" breach, including:

- Events that may trigger a material breach.
- Timing.
- Damages.

Properly drawn licence agreements should clearly stipulate what is considered a material breach, and the consequences of such a breach.

In the case where the agreement is silent on what constitutes a "material breach", the *Hong Kong Fir* test (see Termination for Breach) applies in order to determine whether the innocent party should be absolved from their performance based on the breach.

Factors that may help guide an understanding of whether the consequences of a breach are sufficient to justify termination by the innocent party can include the:

- Quantitative ratio of the party's obligation not performed to the obligation as a whole (*Maple Flock*).
- Seriousness of the breach to the deprived party (*Maple Flock*).
- Probability of repeated breach (*Maple Flock*).
- Seriousness of the consequences of the breach to the deprived party in the particular case (*Hong Kong Fir*).
- Relationship of the part of the obligation performed to the whole obligation (*Fairbanks Soap*).

### Termination for Repeated Breaches

Repeated breaches may be a factor in determining whether an innocent party is justified in non-performance (*Maple Flock*), and repeated non-fundamental breaches may combine to form a fundamental breach (see *Agrifoods International Corp. v. Beatrice Foods Inc.*, 1997 CarswellBC 747 (B.C. S.C.)). It is the consequences of the breach that are important, not the mere occurrence of the breach.

### Perpetual or Irrevocable Licences

Where a licence is stated to be irrevocable, usually neither party can terminate without the consent of the other party (see *Hurst v. Picture Theatres Ltd.*, [1915] 1 K.B. 1 (Eng. C.A.) and *Silverson v. Neon Products Ltd.*, 1978 CarswellBC 502 (B.C. S.C.) (in relation to copyright licences)).

### Partial Termination of a Hybrid Licence (Patent and Know-How)

A hybrid licence may include, for example, patent rights and know-how. Such a licence may have different dates for termination of the patent and know-how licences (such as the expiry or invalidity of the patent) or third-party disclosure of know-how.

Partial termination may:

- Be specified in the terms of the agreement.
- Result from a subsequent agreement between the parties varying the original terms.

Partial termination clauses for a licensee may also include partial termination of a licence based on geography. This could benefit a licensee that is no longer operating a business in a particular geographical area but continues to operate in others.

Another example of a partial termination clause for a licensor may include a minimum royalty clause, where an exclusive licence agreement may revert to a non-exclusive agreement based, for example, on inadequate sales by the licensee.

### Remedying a Breach

The terms of the licence agreement may deal with provisions for remedying a breach.

A party in breach may take steps to cure the breach. Breaches that do not deprive a party of substantially the whole benefit of the agreement may mean the defaulting party has a right to cure the breach. Breaches that do, however, deprive the party of substantially the whole benefit of the agreement may result in a right of the innocent party to terminate, irrespective of belated efforts to cure the defect. Also, repeated minor breaches can, at least in theory, become material breaches.

### How to Give Notice of Termination

Notice of termination should generally be provided in writing and according to the terms of the agreement. Terms of notice can include:

- When notice is to be given.
- Where the notice should be sent (for example, a physical address or department).
- What methods by which notice can be provided (for example, certified mail or email).

If the notice of termination is for a breach depriving one party of substantially the entire benefit of the agreement, then notice may be effective immediately. If the breach does not have this effect, then notice may be given to the other party to cure the defect.

It is important to actively and promptly give notice of a breach to the other party. The right to terminate an agreement due to a breach may be contingent on prompt

notice of the breach and prompt notice of termination. In *Atos IT Solutions and Services GMBH v. Sapient Canada Inc.*, 2016 CarswellOnt 19250 (Ont. S.C.J.) (Atos), the plaintiff Atos breached the terms of a development contract in the fall of 2008 and spring of 2009. Defendant Sapient did not provide notice of termination until the summer of 2009. The court held that by the time of the notice of termination, termination of the contract was unavailable on the basis of the earlier breaches. The court further held that Sapient did not communicate its intention not to waive its termination rights in the agreement and, as a result, Sapient was deemed to have waived the right.

The right to termination based on a particular notice of termination may be impacted when the agreement grants the right to determine whether a breach has occurred to a third-party, such as an arbitrator (see *Bombardier Transportation Canada Inc. v. Metrolinx*, 2017 CarswellOnt 5582 (Ont. S.C.J.)).

### What to Include in the Notice of Termination

Generally, a notice of termination should be in writing. The notice should include any alleged causes for termination with sufficient specificity.

### Saving Defective Notices

The effect of a defective notice is that it may not be effective or binding on the other party. As in *Atos*, this may be problematic due to the implied waiver of termination rights in the case of delayed notice.

A defective notice may be saved by the accession by the other party to the termination notice.

### Other Solutions Following a Defective Notice

If the notice was defective, or if it is unclear, a further notice of termination can be sent.

### When Termination Takes Effect

Termination generally takes effect according to the terms of the agreement.

In the absence of a provision in the agreement that determines the date when the termination is effective, termination may be effective upon receipt of the notice. In the case of a notice of termination for a breach that does not deprive the innocent party of substantially the entire

benefit of the agreement, then reasonable notice to cure the defect should be given.

### Waiving a Right to Terminate

As indicated above, the right to terminate an agreement due to a breach may be contingent on prompt notice of the breach, and prompt notice of termination (see *Atos* where the court found that notice of termination given in the summer was not effective for breaches that occurred the previous fall and spring, and that failure to communicate an intention not to waive termination rights constituted a waiver of such rights).

It is thus inadvisable to delay in sending notice of breach and notice of termination of an agreement.

### Consequences of Wrongful Termination

Wrongful termination may enable a party alleged to be in breach, or in receipt of an otherwise wrongful termination, to contest the notice and seek orders preventing termination.

Wrongful termination may provide a party with a cause of action for enforcement of the contract, damages, and potentially other remedies.

### An Alternative to Termination

An alternative to termination is a subsequent agreement varying the terms of the initial agreement based on the agreement of the parties.

### Steps to Take After Termination

#### Which Obligations Survive Termination

The terms of the agreement may include obligations that survive termination. For example, payment of royalties may still be due post-termination provided such a provision is legally enforceable.

For more information on drafting and negotiating survival provisions, see [Standard Clause, General Contract Clauses: Survival](#).

#### Return and Destruction of Know-How

A licence agreement that includes terms relating to the disclosure of confidential information, such as know-how and obligations to keep the information confidential,

may include terms for the return or destruction of the confidential information upon termination of the licence and may specify a time frame for such return or destruction.

The implications of such terms should be carefully considered. If the information is maintained solely in a hard copy, return or destruction does not present a difficulty, but the situation may be more complex where the confidential information is in electronic form. For example, documents may be deleted, but copies may be retained in regular backup systems (see *ORBCOMM Inc. v. Randy Taylor Professional Corp.*, 2017 CarswellOnt 5148 (Ont. S.C.J.), at paragraphs 23-37).

Also, difficulties may arise where parts of the confidential information have been incorporated into other documents, which may, for example, contain confidential information of the licensee.

Even without express terms, an agreement that involves the disclosure of confidential information by one party may have an implied term that the information be kept confidential and not used after termination of the agreement (see *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, 1999 CarswellBC 77 (S.C.C.) (Cadbury Schweppes)). This, however, depends upon the circumstances.

In *Chicago Blower v. 141209 Canada Ltd*, 1990 CarswellMan 293 (Man. Q.B.), affirmed 1990 CarswellMan 248 (Man. C.A.), reversed on reconsideration on other grounds 1990 CarswellMan 92 (Man. C.A.), a long-term supply contract provided for the disclosure to the licensee of extensive information, much of it confidential, to establish and build the licensee's business. On the facts of that case, the court held that the licensee should be permitted to continue to use the information it had received from the plaintiff.

In *Cadbury Schweppes*, although a misuse of confidential information after termination of the agreement was found, damages were held to be an adequate remedy and an injunction was refused (although, in many cases, misuse of confidential information after termination will justify an injunction).

#### The Effect of Termination on Stock of Licensed Products Held by the Licensee

Royalties may still survive the termination of the agreement and may be due upon the sale of licensed products made during the term of the agreement but sold after its termination.

Licence agreements commonly refer to the stock of licensed products and what happens upon the termination of the licence. This may include:



## Terminating Licences of IP Rights

- A first right of sale to the licensor.
- A sell-off period in favour of the licensee. For a sample sell-off period provision, see [Standard Document, Trademark Licence Agreement \(Pro-Licensee, Long Form\): Section 11.5](#).

### Effect of Termination on Sublicences

The terms of the agreement should deal with the termination of any sublicences in the case that the licence itself is terminated. Generally, sublicences are automatically terminated if the head licence is terminated and, preferably, this should be specified in the main licence. For a sample sublicensing provision that includes termination of the sublicence upon the termination of the main licence, see [Standard Document, Trademark Licence Agreement \(Pro-Licensee, Long Form\): Section 2.4](#). For more information on drafting and negotiating IP sublicensing provisions, see [Standard Clause, IP Licence Agreement: Sublicensing Clause](#).

### Preparing for a Disputed Termination

In preparation for a disputed termination, care should be taken in reviewing the terms of the agreement as a whole and specifically the termination provisions of the agreement.

Notice of breach and notice of termination should be sent in a timely manner to avoid any deemed waiver of the right to terminate (Atos).

The party alleging the breach and sending notice of termination should carefully document all conduct the party relies upon in supporting the decision to terminate. Evidence of reasonableness by the terminating party in the termination process is important should termination be disputed.

For a sample notice of termination, including drafting guidance, see [Standard Document, Notice of Termination](#).

### Cancellation of the Licence at National Registers or Offices

In Canada, there is no requirement to register a licence at any national register or office. However, in practice, licences may be registered with the Canadian Intellectual Property Office (CIPO).

For further information on the registration of copyright licences with CIPO, see [A guide to copyright: Assignments and licences](#).

### Other Issues

#### Avoiding Pitfalls

Parties to an IP licence agreement should:

- Carefully and unambiguously draft the licence agreement, especially with respect to what constitutes a material breach and the effects of a termination.
- Avoid delay in providing notice of breach and notice of termination (see Atos).
- Document evidence of reasonableness in conducting the termination of the agreement.
- Consider the implied term of good-faith performance of the agreement when terminating, and make sure any actions that are taken are made in good faith (see *Bhasin, Callow and Greater Vancouver Sewerage and Drainage District v. Wastech Services Ltd.*, 2021 CarswellBC 265 (S.C.C.)). See also, [Practice Note, Good Faith in Commercial Contracts](#).

Wrongful termination of a licence may give rise to a claim for damages for breach of contract and possibly an injunction. For a collection of resources for breach of contract claims, see [Contract Dispute Toolkit](#).

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