

Assignability of Intellectual Property Licenses in Bankruptcy

Navigating the Murky Waters of Section 365

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I. Introduction

In the world of bankruptcy, traditional rules of contract interpretation and the intentions of one or both of the contracting parties are sometimes ignored and often displaced. One area of bankruptcy in which this phenomenon occurs frequently involves the assumption and assignment of executory contracts.¹ Bankruptcy law is clear that many executory contracts can be assumed and assigned by a debtor² without the consent of the nondebtor party (e.g., equipment leases, real property leases, a wide variety of customer, dealer and other agreements) even if the agreement expressly prohibits assignment or is silent on the issue of assignment.³ Less clear is whether executory contracts involving the licensing of intellectual property (e.g., patent, copyright, trademark, software, know-how) that either expressly prohibit assignment or are silent on the issue can be assumed or assumed and assigned by a debtor without first obtaining the consent of the nondebtor party.

A debtor-licensee often desires to assume or assume and assign the intellectual property licenses to which it is a party—an action to which the nondebtor licensor may object. This article examines a debtor-licensee's ability to assume and assign such licenses in the context of bankruptcy.⁴ As discussed more fully below, courts that have considered the issue have held that, notwithstanding the general authority granted under Section 365, consent is likely required before a debtor-licensee can assume and assign either a nonexclusive patent license or a nonexclusive copyright license if any such license contains an express restriction on assignment or is silent on the issue. Whether consent is needed to assume and assign a patent license or

copyright license that is both exclusive and either restricts assignment or is silent on the issue is unsettled. For a trademark license, existing authority suggests that assumption and assignment of such a license, whether exclusive or nonexclusive, is likely prohibited absent consent or express provisions to the contrary.⁵

The discussion of these rules and other relevant non-bankruptcy rules concerning assignment of intellectual property licenses are set forth in this article as follows: Section II presents the general nonbankruptcy law rules regarding assignment of intellectual property licenses, focusing largely on patent, copyright, trademark, software and know-how licenses; Section III considers the issue of assignment of such licenses in bankruptcy, the determination of which turns largely on the general nonbankruptcy law rules discussed in Section II.

II. General Nonbankruptcy Rules Regarding Assignability

The assignability of intellectual property licenses in bankruptcy proceedings turns largely on general nonbankruptcy law rules that govern such assignments. When analyzing the assignability of an intellectual property license under such rules, three questions must be addressed: (1) What type of intellectual property is the subject of the license (e.g., patent, copyright, trademark, software, know-how)?; (2) Is the license exclusive or nonexclusive?; and (3) What does the license say about the licensee's ability to assign the agreement? Is it silent? Does it expressly restrict assignment? Does it expressly permit it?⁶ The answers to these questions, as set forth in the discussion of the relevant case law below, will help determine whether an assignment by the licensee requires the consent of the licensor.⁷

A. Copyright Licenses

1. Exclusive⁸

General nonbankruptcy law on the assignment of exclusive copyright licenses is a patchwork of conflicting authority. One school of thought is that exclusive copyright licenses are freely assignable.⁹ *Patient Educational Media* considered the transferability of a nonexclusive copyright license that included an express prohibition on assignment in certain invoices signed by the parties.¹⁰ The court noted in dicta the distinction copyright law makes between exclusive and nonexclusive licenses and why an exclusive licensee does not need consent to transfer a copyright license:

The holder of the exclusive license is entitled to all the rights and protections of the copyright owner to the extent of the license. Accordingly, the licensee under an exclusive

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license may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else. By contrast, the nonexclusive license does not transfer any rights of ownership; ownership remains in the licensor. Thus, the nonexclusive licensee does not acquire a property interest in the licensed rights, and unlike the exclusive licensee, lacks standing to sue for its infringement. Accordingly, the nonexclusive licensee cannot assign it to a third party without the consent of the copyright owner. (Citations omitted.)¹¹

But the opinion has several limitations. First, the opinion fails to address whether an exclusive copyright license is freely assignable even when the license expressly prohibits assignment. Second, not only is the language quoted above dicta, as discussed below, subsequent authority has called this language into question.¹² Thus, *Patient Educational Media* is likely of limited precedential value for the proposition that exclusive copyright licenses that restrict assignment are freely assignable.

The leading commentator in the copyright domain also distinguishes between the rights of an exclusive and nonexclusive copyright licensee.¹³ But unlike *Patient Educational Media*, *Nimmer* states that a copyright licensor may restrict assignment of even an exclusive copyright license by express contractual restrictions.¹⁴ This conclusion seems to fly in the face of the concept that an exclusive license transfers title and can be freely assigned—a concept to which *Nimmer* also adheres.¹⁵ *Nimmer* seems to draw a distinction between exclusive copyright licenses that are silent on assignment and those that expressly restrict assignment, the former being freely assignable and the latter being assignable only upon consent of the licensor. Because *Patient Educational Media* was silent on the distinction, one could read *Patient Educational Media* to stand for the same proposition, thus making it possible to reconcile the apparent conflict between the two authorities.

A California district court, recently affirmed by the Ninth Circuit, took a different position than *Patient Educational Media* and *Nimmer* (insofar as those authorities conclude that exclusive copyright licenses are freely assignable absent express prohibitions against assignment), requiring an exclusive copyright licensee to obtain consent before assigning an exclusive license that was silent on assignability.¹⁶ Interpreting Section 201 of the Copyright Act of 1976, *Gardner* held that Congress did not grant exclusive licensees the right to freely transfer the license, but rather only the protections and remedies the Copyright Act gives to the copyright owner with respect to the particular rights that are licensed. Such protections and remedies include the right of the licensee to sue and defend suits in its own name, but not the right to assign the license.¹⁷

Gardner expressly rejected *Patient Educational Media* as authority for the proposition that an exclusive copyright license may be assigned without the licensor's consent, largely because the relevant language in *Patient Educational Media* was dicta. Moreover, *Gardner* correctly claims that *Patient Educational Media* misquoted Section 201 when it stated that an exclusive licensee receives all the "rights and protections" of the copyright owner (which could be read to include the right to assign),

rather than the narrower terms "protection and remedies" (which seems to be limited to the right of the licensee to sue and defend suits in its own name).¹⁸

Gardner is buoyed by the Second Circuit's recent holding in *Morris* that an exclusive licensee of certain rights under a copyright cannot be considered a "copyright owner" under the Copyright Act.¹⁹ Although assignability was not at issue in the case, *Morris* involved a journalist who granted a magazine publisher the exclusive right to include the journalist's columns in several monthly issues of the publisher's magazine. The Second Circuit concluded that the magazine publisher was not the owner of the underlying copyright by virtue of the license, rather the license granted the publisher only the right to publish the columns in its magazines.²⁰ Thus, an exclusive copyright licensee is the owner only with respect to the particular rights that are licensed.²¹ As *Gardner* holds, such a licensee receives only the protections and remedies under the Copyright Act with respect to such rights but not the right to freely transfer the license.

2. Exclusive²²

In the nonbankruptcy context, courts have held that consent is required to assign a nonexclusive copyright license if: (1) the license explicitly restricts assignment—hat is, the license contains provisions restricting assignment or requiring consent, or a grant clause with language that indicates the license is not assignable (e.g., "non-assignable," "non-transferable," or "personal"); or (2) the license is silent concerning assignment.²³ The personal nature of these intellectual property licenses likely renders them nonassignable by the licensee without consent. Copyright licenses are made personal to the licensor by federal copyright law.²⁴ Section 106 of the Copyright Act grants a limited monopoly for a copyright holder that gives the holder the right to determine how the copyright is exploited.²⁵ Such a monopoly "is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."²⁶

B. Patent Licenses

1. Exclusive

We have located no cases that specifically address the assignability of exclusive patent licenses as directly as *Gardner* addresses copyright licenses. Consequently, it is unclear exactly what conclusion a court would reach when faced with the issue of whether an exclusive patent license that either expressly prohibits assignment or is silent on the issue is assignable. In different contexts, however, cases have held that, depending upon the specific language of the agreement and the rights granted, an exclusive patent license can be considered a transfer of ownership, or at least a transfer of "all substantial rights" in the subject patent, even if the license contains an express prohibition on the licensee's ability to assign.²⁷ However, characterizing an exclusive license as an "assignment," or a "grant of all substantial rights" or a transfer of ownership, when such license contains an express prohibition on assignment, seems counterintuitive because one of the fundamental

indicias of ownership of property is the owner's ability to freely assign such property to third parties.²⁸ Moreover, there are at least two reasons why the cases cited above should not be directly relied upon for the proposition that an exclusive patent license that contains an express prohibition on assignment can be freely assigned. First, the cases do not decide whether the license at issue is actually assignable by the licensee. Second, use of the terms "assignment" or "grant of all substantial rights" or "transfer of ownership" by these courts is somewhat confusing because title to the subject patents is probably not actually transferred in an exclusive license. Rather, these courts are analyzing the substantive language to determine only whether an exclusive license is sufficient to allow the licensee standing to sue or whether an exclusive license is a sale for tax treatment purposes, as the case may be.²⁹

Although we have located no court that has yet addressed this issue, a different result might be reached if an exclusive patent license were silent concerning the issue of assignment. Arguably, assuming other important indicias of ownership have been transferred to the licensee (e.g., the right of exclusivity and the right to sue infringers) it is possible that a court may determine such license to be assignable absent the licensor's consent because such license would not be considered a license, but rather an assignment.

2. Nonexclusive

Courts that have considered the assignment of nonexclusive patent licenses in the nonbankruptcy context recognize the same rule applicable to nonexclusive copyright licenses—a nonexclusive patent license is personal and nonassignable unless assignment is expressly authorized.³⁰ Similarly, the rationale for the rule on patent licenses is much the same as the rationale for the rule on copyright licenses. Federal patent law encourages the invention of new technology.

Allowing free assignability...of nonexclusive patent licenses would undermine the reward that encourages [such] invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents....Thus, any license a patent holder granted...would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party to whom the patent holder itself might be absolutely unwilling to [l]icense.³¹

C. Trademark Licenses

There are few cases discussing the assignability of trademark licenses, whether exclusive or nonexclusive.³² That said, commentators have argued, and courts have held, that absent express language permitting assignment without consent, assignment of a trademark license without licensor's consent is likely prohibited.³³ This rule is based on the policy underlying federal trademark law, which seeks to prevent consumer confusion by protecting the goodwill associated with a particular mark.

A trademark owner-licensor has an ongoing right and

duty under trademark law to control the quality of the goods sold under its mark.³⁴ If such duty is not properly discharged, the licensor risks losing trademark protection.³⁵ A court may determine that an integral part of the licensor's duty to control the quality of goods sold under its mark is the ability to control the identity of the licensee to whom the licensor has granted the right to manufacture and sell goods or services under the licensor's mark. Thus, a trademark owner must have the right at all times to determine who is an appropriate licensee of its mark.³⁶ As a result, absent either express language permitting assignment without consent or consent by the licensor, a court might hold that a trademark license—whether exclusive or nonexclusive—cannot be assigned by the licensee.

D. Computer Software Licenses

Our research to date has revealed at least one case specifically addressing a licensee's ability to assign a non-exclusive software license.³⁷ Certain aspects of nonexclusive software licenses make them, like nonexclusive copyright and patent licenses, personal to the licensee, such that nonexclusive software licenses that either expressly restrict assignment or are silent on the issue may also be nonassignable absent consent from the licensor. Software typically is protected by either one or both patent and copyright. Consequently, there likely is a nonexclusive copyright license inherent in every nonexclusive software license.³⁸ In addition, a nonexclusive software license may contain an explicit patent license. But even if such a license is silent in this regard, the licensor may still hold a patent in the subject software's functionality. In that case, assuming the licensee's use of such software would otherwise violate the patent, a nonexclusive patent license could be implied.³⁹

Turning to exclusive software licenses, we have located no case that has specifically addressed their assignability. But again, because software licenses are generally protected by either one or both patent and copyright, one might expect the analysis concerning the assignability of exclusive patent and copyright licenses (see discussions in Sections II.A.1 and II.B.1 above) to apply.

E. Know-How Licenses

At least one case has considered the assignability of know-how licenses.⁴⁰ *Verson* involved a nonexclusive know-how licensee that granted to a third party the exclusive right to use some of the licensed know-how.⁴¹ The court analyzed the assignability issue under patent law (although it did not explain why such law was analogous), which the court stated prohibits assignment of nonexclusive patent licenses without consent, and found insufficient evidence of licensor's consent to the exclusive grant of the licensed know-how by the licensee.⁴² If *Verson* is any indication of how a future court may rule, nonexclusive know-how licenses will not likely be assignable without the consent of the licensor.

III. Assignment of Intellectual Property Licenses in Bankruptcy Proceedings

Despite the general nonbankruptcy rules requiring consent to assign certain types of intellectual property licenses,

bankruptcy courts historically have treated such licenses as executory contracts and have considered their assignability under Sections 365(a) and (f).⁴³ Section 365(a) allows a debtor (subject to court approval, cure of any and all past defaults, and adequate assurances of future performance by the debtor) to assume an executory contract. Section 365(f) allows a debtor (again subject to court approval, cure of any and all past defaults, and adequate assurances of future performance by the assignee) to assign an executory contract to a third party. Typically, a debtor may take either of these actions even if the executory contract expressly restricts assignment. In more recent decisions involving intellectual property licenses, however, courts have interpreted another provision of Section 365—Section 365(c)—as limiting the seemingly extraordinary authority that §§365(a) and (f) grant to the debtor.

Section 365(c) provides that the debtor may not “assume or assign” any executory contract if: (1) applicable non-bankruptcy law excuses the nondebtor from accepting performance from or rendering performance to a third party; and (2) the nondebtor does not consent to the assumption or assignment.⁴⁴ Some courts have interpreted the reference in Section 365(c) to “applicable non-bankruptcy law” to apply only to “personal services” contracts.⁴⁵ But most courts adhere to the more reasoned view that Section 365(c) applies more broadly.⁴⁶

Indeed, Section 365(c) has recently been applied to patent and copyright licenses where the assumption or assumption and assignment of such licenses were at issue.⁴⁷ Less recently, Section 365(c) has been applied to trademark licenses in a much narrower context.⁴⁸

A. Executory versus Nonexecutory

The threshold question concerning the assumption and assignment of an intellectual property license under Section 365 is whether the intellectual property license is an executory contract, because only executory contracts are subject to Section 365.⁴⁹ As a general rule, intellectual property licenses are executory contracts.⁵⁰

Note that the parties’ characterization of a contract as a “license” will not make the contract executory when in fact all performance has been rendered, as in a sales contract. At least one court has interpreted an apparent intellectual property license as a sale rather than a license.⁵¹ In *DAK Industries*, Microsoft granted DAK a pre-petition nonexclusive license to adapt Microsoft software for computer systems sold by DAK to end-users.⁵² The following factors caused the court to conclude the agreement was a sale not a license: (1) pricing and timing of payment were more akin to a sale than a right to use (e.g., \$2.75 million payment became due at signing and payment schedule was based upon units sold rather than duration of use of the software); (2) DAK received all rights under the agreement upon signing (at the point DAK made its first installment payment to Microsoft, it was given the right to the full quantity of units covered by the payment); and (3) the agreement did not simply permit DAK to use the software, but rather permitted DAK to sell the software.⁵³ *DAK Industries* illustrates that a “license” could be characterized as a sale. This could

lead to a determination that the underlying contract is nonexecutory and thus not subject to Section 365. Consequently, parties should closely examine the nature of the agreement before assuming that a purported intellectual property license is an executory contract.

B. Assumption versus Assumption and Assignment— Hypothetical versus Actual Test

Although this memo largely concerns debtor-licensees seeking to assume and assign intellectual property licenses, there may be circumstances (e.g., plan of reorganization which contemplates the survival of the debtor) under which a debtor-licensee seeks only to assume an intellectual property license.⁵⁴ This begs the question of whether the debtor–licensee may do so without first obtaining the consent of the nondebtor licensor. Courts have split on the issue, largely because the relevant language of Section 365(c) is ambiguous. The Third and Ninth Circuits hold that a debtor may not assume an intellectual property license subject to Section 365(c) where applicable nonbankruptcy law prohibits assignment without consent, even if the debtor has no intention of ever assigning the license. Based on their interpretation of the language of Section 365(c), these courts are not concerned with whether or not a debtor *actually* intends to assign the license. Once the license is assumed, these courts will create a “hypothetical” third party to whom the license will be assigned. For this reason, the analysis is referred to as the “hypothetical test.”⁵⁵

The First Circuit takes a more pragmatic approach, allowing a debtor-licensee to assume an intellectual property license that is subject to Section 365(c), even over the objection of a nondebtor licensor, where the debtor-licensee does not contemplate assignment of the license to a third party.⁵⁶ The First Circuit approach is called the “actual test” because there is no consideration of the issue of assignment when the debtor–licensee seeks only to assume an intellectual property license. The *Institute Pasteur* court reasoned that requiring consent to assume the license is irrelevant because the debtor will continue to provide performance under the contract to the nondebtor post-petition, and thus the nondebtor licensor cannot possibly be harmed by the assumption.⁵⁷

C. Copyright Licenses

1. Exclusive

At least one court has held that an exclusive copyright license is freely assignable without the licensor’s consent, notwithstanding a nonassignability provision.⁵⁸ That said, applicable non-bankruptcy law—federal copyright law—is largely unsettled with respect to the assignability of exclusive copyright licenses.⁵⁹ As a result, how a bankruptcy court will rule when a debtor-licensee seeks to assume and assign such licenses will likely depend upon which authority such court chooses to follow: (1) *Patient Educational Media* and *Golden Books* suggest that such assignment is generally appropriate even if the copyright license expressly prohibits assignment; (2) *Nimmer* would allow assignment absent express contractual restrictions to the contrary; and (3) *Gardner* prohibits assignment unless consent is first obtained.

2. Nonexclusive

As discussed above, at least one bankruptcy court has recently applied Section 365(c) to a nonexclusive copyright license and held that, absent consent by a licensor or express provisions to the contrary, such a license is nonassignable in bankruptcy proceedings. *Patient Educational Media* involved a nonexclusive copyright license that the debtor claimed could be assigned in bankruptcy without consent despite the presence of an anti-assignment provision.⁶⁰ The court rejected the debtor's claim because "applicable" federal copyright law provides that non-exclusive copyright licenses are personal to the licensee and not assignable without being expressly made so in the agreement.⁶¹

D. Patent Licenses

1. Exclusive

To our knowledge, Section 365(c) has not yet been applied to an exclusive patent license. As discussed in Section II.B.1 above, the assignability of exclusive patent licenses may depend upon the scope of the license and the relevant language in the particular license agreement. As a result, it is difficult to predict how a bankruptcy court will rule when faced with a licensee seeking to assume and assign an exclusive patent license.

2. Nonexclusive

Bankruptcy courts hold that nonexclusive patent licenses are not assignable under Section 365(c), absent consent by a licensor. The court in *Access Beyond* disallowed, without consent from the licensor, the assignment of a patent license that was silent on assignment because "applicable" patent law provides that patent licenses are personal to the licensee and not assignable unless expressly made so in the agreement.⁶²

E. Trademark Licenses

Unlike in the patent and copyright context⁶³ there do not appear to be any recent published opinions that offer an extended discussion and analysis concerning the assignability under Section 365(c) of exclusive or nonexclusive trademark licenses. Although case law appears to support the proposition that trademark licenses are likely assignable without consent, such decisions may apply only in very narrow circumstances or provide insufficient analysis to prove helpful.⁶⁴

The *Rooster* court held that a trademark sublicensee, without the licensor's consent, could assume and assign an *exclusive* trademark sublicense under which the debtor-sublicensee was permitted to use the Bill Blass name and trademark on neckties that it manufactured.⁶⁵ *Rooster* supports the proposition that consent to assign a trademark license is *not* required. However, it is important to note that the issue decided in *Rooster* was narrowly framed by the parties. The court's analysis was based upon an interpretation of "applicable law" under Section 365(c), but the court specifically stated that it was deciding the parties' "narrowly framed" issue of whether the trademark license constituted a *contract for personal services* under such "applicable law" (in this case, the law of Pennsylvania).⁶⁶ The court ruled that the trademark license did not constitute a personal services contract and thus was assignable.⁶⁷ As a result, unless one is presented with an issue of whether a trademark license falls within the definition of a

personal services contract (under Pennsylvania law), *Rooster* likely will have limited persuasive value.⁶⁸ As noted above in the introduction to Section III, Section 365(c) applies much more broadly than simply to "personal services" contracts.

Superior Toy is often cited for the proposition that trademark licenses are freely assignable in bankruptcy proceedings. But a close reading of *Superior Toy* reveals that this case provides little, if any, support for such a proposition. *Superior Toy* concerned whether a trustee could recover pre-bankruptcy petition payments made pursuant to a validly assumed trademark license. With no discussion, the court simply noted in the factual background that the exclusive, nontransferable license at issue was assumed by the trustee, without a hearing, and with approval of the bankruptcy court.⁶⁹ The opinion contains no discussion concerning the propriety of such assumption or even whether the nondebtor licensor objected to such assumption. Thus, *Superior Toy* likely stands for little more than the rather obvious proposition that trademark licenses *can* be assumed.

Not only will *Rooster* and *Superior Toy* provide minimal support to a licensee seeking to assign a trademark license in bankruptcy, there is additional authority suggesting that, in certain circumstances, a trademark license cannot be assumed or assumed and assigned by a debtor-licensee without the licensor's consent.⁷⁰ In *Luce*, the debtor-licensee attempted to assume a trademark license under which the debtor-licensee was granted the right to use the Fruit of the Loom trademark on certain apparel manufactured by the subcontractor of the debtor-licensee that was approved by the licensor. The licensor sought to terminate the license. The debtor-licensee responded stating its intent to assume the license under §365.⁷¹ The *Luce* court denied the attempted assumption because: (1) the debtor-licensee sought to have the goods manufactured by a different subcontractor that had not been approved by licensor, which would have been "tantamount to an assignment of the license to [such subcontractor], an act prohibited by the [license agreement]"; (2) the potential third-party subcontractor refused to guarantee the debtor-licensee's continued performance to licensor; and (3) there was no assurance that the back debt owed to licensor would be paid.⁷² It is unclear from *Luce* which one of the foregoing reasons was determinative of the court's decision. Thus, it is difficult to predict how much weight a bankruptcy court would give to the argument that a proposed assumption or assumption and assignment of a trademark license is prohibited solely because the licensor does not consent or because the license expressly prohibits assignment. Nevertheless, *Luce* does suggest that a bankruptcy court will consider the unique aspects of a trademark licensing relationship before allowing assumption or assumption and assignment of a trademark license.

In light of the foregoing, a court attempting to determine whether a trademark license is assumable or assignable and assignable may borrow from the rationale of the recent patent and copyright cases and apply "applicable" nonbankruptcy trademark law to restrict a debtor-licensee from assuming or assuming and assigning a trademark license

without the licensor's consent. As discussed in Section II above, a trademark license, like nonexclusive copyright and nonexclusive patent licenses, is personal to the licensee (although a trademark license is personal for different reasons) and thus under trademark law, a trademark licensor, like a copyright and patent licensor, may be able to prevent a debtor-licensee's assumption and assignment of a trademark license without the licensor's consent, regardless of whether the license is exclusive or nonexclusive.

It is important to note that a trademark licensor need not wait for notice from a debtor-licensee of its intent to assume and possibly assign a license before taking action to prevent such a result. Under certain circumstances, a trademark licensor may be able to successfully persuade a bankruptcy court to lift the automatic stay⁷³ in order to permit the licensor to terminate the license. To do this, a licensor would have to demonstrate real harm (other than simply financial harm) as a result of the licensee's continued use of licensor's trademark or service mark, or the licensee's inability to cure past defaults or provide adequate assurance of future performance under Section 365.⁷⁴

For example, if a licensor could show that a debtor-licensee repeatedly failed to comply with the "quality control" provisions of the license, especially pre-petition, or that the debtor-licensee was failing to satisfy its post-petition payment obligations, a court may allow the licensor to terminate the agreement.⁷⁵ In any event, in order to take advantage of its ability to lift the automatic stay and terminate the license, a licensor is well-advised to be vigilant and to keep detailed records of its efforts to exercise control over the quality of licensee's trademark-related activities.

F. Computer Software Licenses

As a general matter, computer software licenses are treated as executory contracts under the Bankruptcy Code and thus may be assignable under Section 365(f), notwithstanding any restrictions on assignment in the agreement or silence.⁷⁶ Our research to date has not disclosed any case specifically addressing a licensee's ability to assign a software license, whether exclusive or nonexclusive, in the bankruptcy context. As discussed above in Section II.D, however, because there are elements of copyright and possibly patent inherent in every software license, applicable non-bankruptcy law concerning the assignability of copyright and patent licenses would seem to apply when analyzing the assignability of a software license.

G. Know-How Licenses

We have located no case in which Section 365 has been applied to the assignability of know-how licenses. Should a bankruptcy court determine that the law discussed in §II.E above is applicable nonbankruptcy law, it is possible the assignability of know-how licenses, at least in the nonexclusive context, would be treated the same as the assignability of nonexclusive patent licenses.

IV. Conclusion

As in many areas of law, the rules concerning assignability of intellectual property licenses in bankruptcy proceedings are often less than clear and constantly evolving.

Nevertheless, this article has attempted to distill and present those rules in a manner that is helpful to the intellectual property and bankruptcy practitioner attempting to reach a satisfactory resolution of these challenging issues.

Endnotes

1. Treatment of executory contracts in bankruptcy is governed by 11 U.S.C. § 365 of the United States Bankruptcy Code. Although Section 365 does not define the term "executory contract," courts define such a contract as one under which performance is due to some extent on both sides and in which the obligations of both parties are so far unperformed that the failure of either party to complete performance would constitute a material breach and thus excuse the performance of the other. *See, e.g., Everex Sys., Inc. v. Cadtrak Corp.*, 89 F.3d 673, 677 (9th Cir. 1996).

2. A debtor-in-possession, with few exceptions not applicable here, has the same rights and duties of a trustee. 11 U.S.C. § 1107(a). Thus, the term "debtor" as used in this article shall refer to both a debtor-in-possession and a trustee in bankruptcy.

3. *See* 11 U.S.C. § 365(f) (granting a debtor the authority to assume, assign, or reject the executory contracts of the debtor, notwithstanding any contrary provisions appearing in such contracts).

4. Different rules may apply where the licensor, as opposed to the licensee, seeks to assume or assume and assign an intellectual property license in bankruptcy; discussion of such rules is beyond the scope of this article.

5. To the extent a debtor-licensee seeks only to assume rather than assume and assign an intellectual property license, different rules may apply depending upon the jurisdiction. *See* discussion in Section III.B below.

6. Whether a particular transfer affects an "assignment" will depend on the particular language in the agreement and applicable state law. Thus, it is important to consider the specific language of the assignment provision at issue in the context of the applicable law.

7. If a license agreement expressly permits the licensee to assign its rights under the license without the licensor's consent, there is very little, if anything, a licensor can do to either prevent such an assignment or terminate the license. This article discusses only those situations in which a license expressly prohibits assignment or is silent on the issue. However, note that a nondebtor licensor in bankruptcy may have grounds to prevent a debtor-licensee's assumption and assignment of a license agreement that expressly permits assignment if the debtor-licensee cannot cure all past defaults under the agreement and the debtor-licensee (or the assignee) cannot provide adequate assurances of continued performance. *See* Sections 365(b) and (f); discussion in Section III.E below.

8. An exclusive license grants the licensee the right to use the subject intellectual property to the exclusion of any third party and to the exclusion of the licensor itself.

9. *See* *In re Patient Educ. Media, Inc.*, 210 B.R. 237 (S.D. N.Y. 1997); *see also* *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 318-19 (D. Del. 2001) (holding exclusive copyright license to be freely assignable under *Patient Educ. Media*).

10. *Id.* at 239-40.

11. *Id.* at 240.

12. *See* *Gardner v. Nike, Inc.*, 110 F.Supp.2d 1282 (C.D. Cal. 2000), *aff'd*, 279 F.3d 774 (9th Cir. 2002); *Morris v. Business Concepts, Inc.* 259 F.3d 65 (2d Cir. 2001).

13. *See* NIMMER ON COPYRIGHT, § 10.02[A] and [B][4] (2001).

14. *See* § 10.02[B][4].

15. *Id.* (exclusive licensee, "having acquired 'title' or ownership of the rights conveyed, may reconvey them absent contractual restrictions.")

16. *See Gardner*, 110 F.Supp.2d at 1286-87, 279 F.3d at 781 ("[A]n exclusive licensee has the burden of obtaining the licensor's consent before it may assign its rights, absent explicit contractual language to the contrary.")

17. *Id.*

18. *Id.* at 1287. *But see Golden Books*, 269 B.R. at 318-19 (hold-

ing exclusive copyright license freely assignable under *Patient Educ. Media* and *Nimmer* and declining to follow *Gardner* because “protections and remedies” includes all of the rights of an owner that are transferred, including the right to assign).

19. *Morris*, 259 F.3d at 69.

20. *Id.* at 70–71.

21. *Id.*

22. A nonexclusive license grants the licensee a nonexclusive right to use the subject intellectual property. Thus, the licensor is free to use such intellectual property itself and/or license it to other parties.

23. *See Patient Educ. Media*, 210 B.R. at 240–241 (citing *SQL Solutions, Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D. Cal. 1991)); *see also* *In re Golden Books Family Entm't, Inc.*, 269 B.R. 300 (D. Del. 2001) (holding nonexclusive copyright license to be nonassignable).

24. *Patient Educ. Media* at 240.

25. *Id.*

26. *See Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *see also Patient Educ. Media*, 210 B.R. at 242.

27. *See, e.g., Aluminum Co. of America v. Norton Co., Inc.*, 27 U.S.P.Q.2d 1317, 1993 WL 330628, *2 (W.D. Pa. 1993) (express prohibition on assignment of exclusive patent license does not prevent a finding of a grant of “all substantial rights” in the subject patent thus allowing licensee to sue infringers) As a general rule, only assignees of patents have standing to sue for infringement. *Refac Int'l, Ltd. v. Visa USA, Inc.*, 16 U.S.P.Q. 2024, 1990 WL 130032, *3 (N.D. Cal. 1990). As the following cases discuss, an exclusive patent licensee may also have the right to sue infringers in its own name if the license effectively transfers all substantial rights in the subject patent to the exclusive licensee. *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 633–34 (D. N.J. 1992) (same); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874–75 (Fed. Cir. 1991) (same); *see also Conde Nast Publ'n v. United States*, 575 F.2d 400 (2d Cir. 1978) (exclusive trademark and trade name license considered a “sale” for tax treatment purposes and restriction on assignability not inconsistent with a completed sale). *But see Pfizer Inc. v. Elan Pharmaceutical Research Corp.*, 812 F. Supp. 1352, 1373 (D. Del. 1993) (express prohibition on assignment of patent license without patent holder’s consent, among other factors, precluded finding that agreement was an “assignment” rather than a license and thus party, as mere licensee, has no standing to sue); *Raber v. Pittway Corp.*, 23 U.S.P.Q.2d 1313, 1992 WL 219016, *3 (N.D. Cal. 1992) (same).

28. *See Ciba-Geigy*, 804 F. Supp. at 630.

29. *See McNeilab, Inc. v. Scandipharm, Inc.*, 95 F.3d 1164, 1996 WL 431352, *5 (Fed. Cir. 1996) (noting that courts have “recognized that there is no substantive difference between the property interests of the exclusive licensee and the assignee of the patent, and thus have sometimes used the terms interchangeably, subordinating the purity of the distinction to the reality of legal rights.”); *Calgon Corp. v. Nalco Chemical Co.*, 726 F. Supp. 983, 985 (D. Del. 1989) (noting that “just as the right to alienate personal property is an essential incident of ownership, the right to further assign patent rights is implicit in any true assignment”).

30. *See Everex*, 89 F.3d at 679.

31. *Id.*

32. Although the case law does not appear to distinguish between exclusive and non-exclusive trademark licenses, there are strong arguments that trademark licenses are likely never assignable without the licensor’s consent, because the licensor always maintains its duty to control the quality of goods and services sold under the licensed mark, whether the license at issue is exclusive or nonexclusive.

33. *See Tap Publ'n, Inc. v. Chinese Yellow Pages (New York), Inc.*, 925 F. Supp. 212, 218 (S.D.N.Y. 1996) (assignment of exclusive trademark license that was silent on assignment was prohibited absent trademark owner’s consent); 4 MCCARTHY ON TRADEMARKS § 25.33 (2001) (while the case law is sparse on this issue, unless the license states otherwise, a licensed mark is personal to the licensee and cannot be assigned).

34. *Gorenstein Entm't, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431 (7th Cir. 1989). The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark....The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the same good or service. 874 F.2d at 435.

35. *Id.*

36. MCCARTHY at § 25:33.

37. *See, e.g., SQL Solutions*, 1991 WL 626458.

38. *Id.* at *5–6 (noting “[i]t is well established that computer programs are ‘works of authorship’ subject to copyright” and holding non-exclusive copyright license that expressly restricted assignment non-assignable absent licensor’s consent).

39. *See NORTON BANKR. LAW & PRACTICE*, 2d §151:33.50 (2000).

40. *Verson Corp. v. Verson Int'l Group*, 899 F. Supp. 358 (N.D. Ill. 1995).

41. It is unclear from the *Verson* opinion whether or not there was an enforceable express restriction on assignment; the court says only that the licensor did not expressly grant the licensee the right to assign.

42. *Verson*, 899 F. Supp. at 363.

43. *See, e.g., Everex*, 89 F.3d at 677.

44. *See* 11 U.S.C. § 365(c).

45. *See, e.g., In re Tom Stimus Chrysler-Plymouth, Inc.*, 134 B.R. 676 (M.D. Fla. 1991); *In re Fulton Air Service, Inc.*, 34 B.R. 568 (N.D.Ga. 1983). “Personal services” contracts are considered to be nonassignable because the party performing the services possesses certain unique skills or special knowledge. Presumably, the other party has relied upon such skill and knowledge as the basis for entering into the contract and such reliance makes the performing party’s duties nondelegable and thus nonassignable without the nonperforming party’s consent. *See, e.g., In Re Rooster*, 100 B.R. 228, 232–33 (E.D. Pa. 1989).

46. *See In re Braniff Airways, Inc.*, 700 F.2d 935, 943 (5th Cir. 1983) (“[s]urely if Congress had intended to limit § 365(c) specifically to personal services contracts, its members could have conceived of a more precise term than ‘applicable law’ to convey the meaning.”); *see also In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984); *In re Lil’Things, Inc.*, 220 B.R. 583, 587–88 (N.D. Tex. 1998).

47. *See Perlman v. Catapult Entm't, Inc.*, 165 F.3d 747, 754–55 (9th Cir. 1999) (debtor–licensee may not assume nonexclusive patent license without consent), *cert. dismissed*, *Catapult Entm't, Inc. v. Perlman*, 120 S. Ct. 369 (1999); *In re Access Beyond Tech., Inc.*, 237 B.R. 32, 48–49 (D. Del. 1999) (debtor–licensee may not assume and assign non-exclusive patent license that is silent on the issue of assignment without consent); *Patient Educ. Media*, 210 B.R. at 242–43 (nonexclusive copyright license with anti-assignment provision not assignable without consent).

48. *See Rooster*, 100 B.R. 228 (holding exclusive trademark license was not a “personal services” contract under Pennsylvania law and thus was assumable and assignable by debtor–licensee, notwithstanding licensor’s objection).

49. *See* note 2, *supra*, for definition of executory contracts. Insofar as a license is found to be non-executory, the treatment of such license in bankruptcy would be just the same as that of any other asset of the debtor, such that a purchaser of any interest in such license would acquire all right, title and interest in and to such asset.

50. *See, e.g., Patient Educ. Media*, 210 B.R. at 241 (copyright license found to be executory contract); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir. 1997) (recognizing patent license as executory); *In re Superior Toy & Mfg. Co.*, 78 F.3d 1169 (7th Cir. 1996) (recognizing trademark license as executory). Courts do not need much to deem an intellectual property license executory. For example, one case did so even though the only performance owed from the licensor was to refrain from suing the licensee for infringement and the only performance due from the licensee was to mark all products made pursuant to the license with the statutory patent notice. *See, e.g., Everex*, 89 F.3d at 677.

51. See *In re DAK Indus., Inc.*, 66 F.3d 1091 (9th Cir. 1995).

52. 66 F.3d at 1093.

53. *DAK Indus.*, 66 F.3d at 1095–96.

54. In many bankruptcy proceedings, the debtor's business (or one of debtor's businesses) may be liquidated and the assets associated with such business are sold to unrelated third parties, requiring that title to such assets, including any intellectual property licenses, be assigned to such unrelated third party to effect a proper transfer. However, certain plans of reorganization are structured in a way that causes the debtor (or one of debtor's businesses) to survive the bankruptcy proceedings and thus assumption of any necessary intellectual property licenses is all that is needed.

55. *Access Beyond*, 237 B.R. at 48–49 (non-exclusive patent license silent on the issue of assignment cannot be assigned without consent and thus debtor could not even assume the license); *Catapult Entm't*, 165 F.3d at 754–55 (debtor may not assume non-exclusive patent license because federal patent law prohibits assignment of such license without consent); see also *In re James Cable Partners, L.P.*, 27 F.3d 534 (11th Cir. 1994) (hypothetical test adopted in non-intellectual property context); *In re Magness*, 972 F.2d 689 (6th Cir. 1992) (same); *In re West Elec., Inc.*, 852 F.2d 79 (3d Cir. 1988) (same). At least one district court in the Seventh Circuit has indicated in dicta that it will likely follow the "hypothetical test." See *Szombathy v. Controlled Shredders, Inc.*, 1996 WL 417121 *12–13 (Bankr. N.D. Ill. 1996) (noting that federal law concerning assignability of patents "supersedes assignment rights under §365 of the Bankruptcy Code.") *rev'd in part*, 1997 WL 189314 (N.D. Ill. 1997).

56. *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir. 1997), *cert. denied*, 521 U.S. 1120 (1997).

57. *Id.* at 493–94. See also *In re GP Express Airlines, Inc.*, 200

B.R. 222, 231–33 (Bankr. D. Neb. 1996) (accepting "actual test" as applied to airline contract); *Texaco Inc. v. Louisiana Land and Expl. Co.*, 136 B.R. 658, 668–71 (M.D. La. 1992) ("actual test" applied to mineral contract).

58. *Golden Books*, 269 B.R. 300 (D. Del. 2001).

59. See Section II.A.1.

60. See introduction to Section III.

61. 210 B.R. at 242–43.

62. 237 B.R. at 45–47. See also *Catapult Entm't*, 165 F.3d at 750–55 (federal patent law made non-exclusive patent licenses personal and non-delegable, and thus not assignable without licensor's consent).

63. See Sections C and D.

64. See *Rooster*, 100 B.R. 228; *In re Superior Toy & Mfg. Co.*, Inc., 78 F.3d 1169 (7th Cir. 1996).

65. 100 B.R. at 235. The court's opinion does not disclose whether there was a provision in the license agreement concerning the licensee's ability to assign the agreement. In any event, it is fair to assume that the license agreement at least did not expressly permit assignment.

66. *Id.* at 232. The *Rooster* court acknowledged that Section 365(c) is applicable to any contract subject to a legal prohibition against assignment—not only "personal services" contracts. *Id.* at 232, fn.6.

67. In the words of the court:

I cannot conclude that the debtor's performance under the licensing agreement draws upon any special personal relationship, knowledge, unique skill or talent. The only actual discretion retained by the debtor in the area of development or manufacture is the choice of patterns to put into production... [the debtor] is not involved in creating the actual design of the trademarked neckwear; its artistic input is limited to choosing from established patterns...[The debtor] is not involved in the creation of a new or unique product.

Id. at 233.

68. Note that a "personal services" contract and a contract that is "personal" (e.g., patent, copyright and trademark licenses) are two distinct, although somewhat related, concepts. In both situations, the identity of the licensee or the party performing special or unique services, as the case may be, is the important factor. The licensor or non-performing party is entitled to know and choose with whom it is contracting because of the special nature of the relationship. The *Rooster* court did not consider whether the license agreement at issue was "personal" to the licensee under applicable non-bankruptcy trademark law.

69. 78 F.3d at 1170.

70. *In re Luce Indus., Inc.*, 14 B.R. 529 (S.D. N.Y. 1981).

71. *Luce*, 14 B.R. at 530.

72. 14 B.R. at 530–531.

73. As a general matter, the filing of a bankruptcy petition operates as an automatic, temporary stay of several different actions that non-debtors may otherwise be entitled to pursue against the debtor, including the right to seek an injunction to prevent the use of the non-debtor's intellectual property rights. §362(a)(1)–(8).

74. See, e.g., *In re Indep. Mgmt. Assoc., Inc.*, 108 B.R. 456, 465–64 (D. N.J. 1989) (licensor's failure to provide evidence of consistent quality control inspections and its failure to raise quality control issues until after bankruptcy petition filed and notices of assumption were sent, clearly indicated that the reasons sought to terminate the agreements were solely financial).

75. See *In re B-K of Kansas, Inc.*, 69 B.R. 812 (D. Kan. 1987) (licensee-debtor's failure to make post-petition royalty payments clearly indicated an inability to cure monetary defaults and present a successful reorganization plan); *In re Tudor Motor Lodge Assoc., L.P.*, 102 B.R. 936 (D. N.J. 1989) (licensee-debtor's repeated pre-petition, and continued post-petition, failure to comply with licensor's stringent quality control requirements entitled licensor to terminate license agreement, in spite of debtor's assurances of adequate protection in the form of payment of post-petition obligations).

76. *But see DAK Indus.*, 66 F.3d 1091.

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