

THE *Licensing Journal*

Edited by the Law Firm of Grimes & Battersby

Is Silence Really Golden? Assumption and Assignment of Intellectual Property Licenses in Bankruptcy

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© 2002–2006 by Neil S. Hirshman, Michael G. Fatall, and Peter M. Spingola. This article will also be published in the *Hastings Business Law Journal*. Neil S. Hirshman, Michael G. Fatall and Peter M. Spingola, "Is Silence Really Golden? Assumption and Assignment of Intellectual Property Licenses in Bankruptcy," 4 *Hastings Bus. L. J.* (forthcoming May 2007).

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 non-debtor 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 non-debtor party.

A debtor-licensee often desires to assume or assume and assign intellectual property licenses to which it is a party—an action to which the non-debtor licensor may object. This article examines a debtor-licensee's ability to assume and assign such licenses in the context of bankruptcy.⁴ As will be discussed more fully, 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 a nonexclusive patent license, nonexclusive copyright license or a nonexclusive trademark 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, copyright license or trademark license that is exclusive and either restricts assignment or is silent on the issue is unsettled. With respect to software licenses, at least one case has applied the rules governing assumption and assignment of copyright licenses noted. At least one court has analyzed the assignability of know-how licenses under case law concerning assignability of patent licenses.⁵

This article presents the general non-bankruptcy law rules regarding assignment of intellectual property licenses, focusing largely on patent, copyright, trademark, software and know-how licenses and then considers the

issue of assignment of such licenses in bankruptcy, the determination of which turns largely on the general non-bankruptcy law rules discussed.

General Non-Bankruptcy Rules Regarding Assignability

The assignability of intellectual property licenses in bankruptcy proceedings turns largely on general non-bankruptcy 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 non-exclusive; 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 may require the consent of the licensor.⁷

Copyright Licenses

Exclusive

General non-bankruptcy law on the assignment of exclusive⁸ copyright licenses is a patchwork of conflicting authority. One school of thought is that exclusive copyright licenses are freely assignable.⁹ *Patient Educ. 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 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 license is personal to the transferee and the 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 *dicta*, as discussed below, subsequent authority has called this language into question.¹² Thus, *Patient Educ. 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 Educ. Media*, *Nimmer* states that a copyright licensor may restrict assignment of even an exclusive copyright license by express contractual restrictions.¹⁴ *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 with consent of the licensor. Because *Patient Educ. Media* was silent on the distinction, one could read *Patient Educ. Media* to stand for the same proposition, thus making it possible to reconcile the apparent conflict between the two authorities.

A California district court, affirmed by the Ninth Circuit, took a different position than *Patient Educ. 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.¹⁵ 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.¹⁶

The Ninth Circuit was also influenced by the general policy consideration that reading into the Copyright Act the right of a licensee to freely transfer an exclusive license would be inconsistent with the copyright owner's ability to monitor the use of its copyright.¹⁷

Gardner expressly rejected *Patient Educ. 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 Educ. Media* was *dicta*. Moreover, *Gardner* correctly claims that *Patient Educ. 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 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 exclusive license; rather the license granted the publisher only the right to publish the columns in its magazines.²⁰ The *Morris* court held that 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. A court following *Gardner* and *Morris* would likely find that an exclusive copyright license that is silent on the issue of assignment is not assignable without the express consent of the licensor.

Nonexclusive

In the non-bankruptcy context, courts have held that consent is required to assign a nonexclusive²² copyright license if: (1) the license explicitly restricts assignment, that 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 It is likely the personal nature of these intellectual property licenses that courts rely on in finding them non-assignable by the licensee without consent. Copyright licenses are made personal to the licensee 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

Patent Licenses

Exclusive

We have located only two cases that specifically address the assignability of exclusive patent licenses as directly as *Gardner* addresses copyright licenses.²⁷ In *Hernandez*, the court concluded that federal patent law requires the consent of the licensor in order for the licensee to assign an exclusive patent license that expressly restricted assignment to unrelated third parties.²⁸ In reaching this conclusion, the court rejected the licensee's claim "that the grant

of an exclusive license creates an equitable ownership interest that is freely assignable under federal patent law."²⁹ The court cited only three instances under which a patent may be transferred, noting that "[a]nything else is a license": (1) transfer of the whole patent; (2) transfer of an undivided part of the patent; or (3) an exclusive territorial grant to use the patent in a defined region of the United States.³⁰ Because none of those instances were applicable to the debtor-licensee in *Hernandez*, the court determined that the license was non-assignable.³¹ According to the court, allowing any exclusive license to be assignable would cause the patent holder to lose control over the identity of its licensees whenever a patent license agreement grants an exclusive right to a licensee.³² According to the court, such a result fails to maintain the distinction in the federal case law between the grant of an exclusive license and an outright assignment of a patent.³³ The court further noted that, although the license allowed the debtor-licensee to assign his rights under limited circumstances, it expressly restricted the debtor-licensee from assigning its rights to *any* third party, regardless of its identity.³⁴

The court in *Superbrace*, applying California state contract law, held that an exclusive patent license that was silent on assignability was not personal and thus was assignable by the licensee.³⁵ Following California Supreme Court precedent,³⁶ the court first held that "state law, not federal common law, should be applied when deciding whether a patent license is assignable."³⁷ Although *Superbrace* acknowledged post-*Dopplmaier* federal case law holding such licenses to be non-assignable based upon federal patent law and its underlying policies, the court ultimately disagreed with the reasoning of such cases and declined to reverse the long-standing California Supreme Court precedent.

Freed from any duty to consider federal patent law and policy, the *Superbrace* court then applied California state law to determine whether the exclusive patent license at issue was nonassignable, in particular, whether such license was *personal* in nature.³⁸ The court relied on several factors in concluding that the license at issue was *not* personal and thus, was assignable, including the following: (1) the licensor made no claims that only the licensee was capable of making and selling the patented inventions or that he was relying on the licensee's personal experience in the relevant fields, in fact, the licensee required extensive training and assistance from licensor in order to practice the licensed patents; (2) the licensor sold the patent rights to the licensee for a lump sum payment (payable in installments) and retained title to the patents only as security for the unpaid debt, thus licensor did not rely on continuing royalties and had no stake in how many licensed products were sold—licensor's sole interest was to receive the balance of the purchase price;

and (3) there were no express restrictions on the licensee's ability to assign its rights.³⁹

In different contexts, 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.⁴⁰ 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, may be inconsistent with one of the fundamental *indicias* of ownership of property, which is the owner's ability to freely assign such property to third parties.⁴¹ Moreover, there are at least two reasons why these cases 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, these 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 of the contracts to determine only whether an exclusive license is sufficient to allow the licensee standing to sue in its own name or whether an exclusive license is a sale for tax treatment purposes, as may be the case.⁴²

Hernandez leaves open the question of whether an exclusive patent license that is silent on assignability may be assigned. Based on *Hernandez's* narrow interpretation of the circumstances under which a patent is deemed assigned, one might conclude that even an exclusive license that is silent is non-assignable without the licensor's consent. However, arguably, assuming important *indicias* of ownership or "all substantial rights" in a patent have been transferred to a 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 express consent because such license would not be considered a license, but rather an assignment in which case the owner of a patent has an unrestricted right to assign. Finally, parties subject to California state law should be aware of established state court precedent that general California contract law principles will likely apply to the determination of whether such a license is assignable.

Nonexclusive

Courts that have considered the assignment of nonexclusive patent licenses in the non-bankruptcy context recognize the same rule applicable to nonexclusive copyright

licenses—a nonexclusive patent license is personal and non-assignable unless assignment is expressly authorized.⁴³ 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 license.⁴⁴

Trademark Licenses

Our research to date has revealed one case that has directly addressed the assignability of a nonexclusive trademark license, in this case in the context of a bankruptcy proceeding. In *In re N.C.P. Marketing Group, Inc.*,⁴⁵ the US District Court of Nevada affirmed the bankruptcy court's ruling that a nonexclusive trademark license is personal to the license and therefore not assignable without the licensor's consent. The court, relying on the principles of trademark law, stated that because a trademark owner "has an interest in the party to whom the trademark is assigned so that it can maintain the good will, quality, and value of its products and thereby its trademark, trademark rights are personal to the assignee and not freely assignable to a third party."⁴⁶

Other than *N.C.P. Marketing*, there are few cases directly discussing the assignability of trademark licenses, whether exclusive or nonexclusive. With that said the *N.C.P. Marketing* court's approach appears to be well-reasoned. Commentators have argued, and some courts have held, that absent express language permitting assignment without consent, assignment of a trademark license without licensor's consent is likely prohibited.⁴⁷ 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.⁴⁸ If such duty is not properly discharged, the licensor risks losing trademark protection.⁴⁹ 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 provide services under the licensor's mark. Thus, according to McCarthy, a trademark owner must have the right at all times to determine who is an appropriate licensee of its mark.⁵⁰ 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.⁵¹

Computer Software Licenses

Our research to date has revealed at least two cases that have specifically addressed a licensee's ability to assign a software license.⁵² Certain aspects of nonexclusive software licenses make them, like nonexclusive copyright and patent licenses, personal to the licensee, such that non-exclusive software licenses that either expressly restrict assignment or are silent on the issue may also be non-assignable absent consent from the licensor. Software is protected by copyright and in some cases patent as well. Consequently, there is, at the very least, a copyright license inherent in every software license.⁵³ In addition, a 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.⁵⁴

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 copyright and in some cases patent as well, one might expect the analysis concerning the assignability of exclusive copyright and patent licenses to apply.

Know-How Licenses

At least one case has considered the assignability of know-how licenses.⁵⁵ *Verson* involved a nonexclusive know-how licensee that granted to a third party the exclusive sublicense right to use some of the licensed know-how.⁵⁶ The court equated the exclusive sublicense grant with assignment and 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.⁵⁷ If *Verson* is any indication of how a future court may rule, nonexclusive know-how licenses would not be assignable without the consent of the licensor. We have located no case that has directly addressed the assignability of exclusive know-how licenses. Even

assuming the application of patent law to the issue, how a court might rule is unpredictable because the law on assignability of exclusive patent licenses is unsettled.

Assignment of Intellectual Property Licenses in Bankruptcy Proceedings

Despite the general non-bankruptcy rules requiring consent to assign certain types of intellectual property licenses, bankruptcy courts have historically treated such licenses as executory contracts and have considered their assignability under Sections 365(a), 365(b) and 365(f).⁵⁸ Sections 365(a) and 365(b) allow 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.⁵⁹ In more recent decisions involving intellectual property licenses, however, courts have interpreted another provision of Section 365—Section 365(c)(1)—as limiting the seemingly extraordinary authority that Sections 365(a) and 365(f) appear to grant to a debtor.

Section 365(c)(1) provides, in relevant part, that “[t]he trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties,” if: (1) applicable law excuses the non-debtor from accepting performance from or rendering performance to a third party; and (2) the non-debtor does not consent to the assumption or assignment.⁶⁰ Some courts have interpreted the reference in Section 365(c) to “applicable law” to apply only to “personal services” contracts.⁶¹

Indeed, courts have applied Section 365(c)(1) to patent, copyright, and trademark licenses when the assumption or assumption and assignment of such licenses was at issue.⁶²

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 365.⁶³ The majority of courts that have considered the issue have held that intellectual property licenses are executory contracts.⁶⁴ However, courts are certainly not unanimous. In *Gencor*, a US District Court considered whether a settlement agreement arising out of patent litigation that

included an irrevocable patent license was an executory contract. Applying the Countryman definition of an executory contract,⁶⁵ the court first expressly distinguished between the failure of a condition and the breach of an unconditional duty or obligation, stating, “the failure to fulfill a condition would not cause a breach of contract, unless a party has an affirmative duty to insure that the condition occurs.”⁶⁶ Then, the *Gencor* court found the agreement to be nonexecutory when: (1) the licensee paid to the licensor a one-time \$1.2 million fee; (2) although licensee did have an obligation to pay royalties if it produced products through use of the licensed patent, it never actually utilized the patent and had no obligation to do so; and (3) the licensor’s obligations to enforce the patent and provide most favored royalty terms to licensee were not unconditional obligations but were merely conditions to licensee’s obligation to pay royalties.⁶⁷

Further, the *Gencor* court expressly disagreed with the Ninth Circuit’s determination in *CFLC* that a licensor’s covenant not to sue, inherent in all license agreements, is a sufficient ongoing affirmative obligation to classify an intellectual property license as executory. The court noted that if a licensor believes that a licensee has acted outside the scope of the license granted, the licensor is free to sue the licensee. In such a case, licensor’s covenant not to sue simply “provides a defense to the licensee” to the extent it can show that it has not exceeded the scope of the licensed rights.⁶⁸ Thus, such a covenant not to sue on behalf of a licensor is “more like a condition than a duty.”⁶⁹

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.⁷⁰ In *DAK Indus.*, Microsoft granted DAK a pre-petition nonexclusive license to adapt Microsoft software for computer systems sold by DAK to end-users.⁷¹ 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 at 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.⁷² *DAK Indus.* illustrates that a “license” could be characterized as a sale. This characterization could lead to a determination that the underlying contract is non-executory and thus not subject to Section 365.

In light of the existing case law, parties should closely examine the nature of the intellectual property license at issue before assuming that a purported intellectual

property license is an executory contract. Courts certainly may view this analysis as a highly factual specific inquiry.

Assumption vs. Assumption and Assignment—Hypothetical vs. Actual Test

Although this article 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.⁷³ This possibility begs the question of whether the debtor-licensee may do so without first obtaining the consent of the non-debtor licensor. Courts have split on the issue, largely because the relevant language of Section 365(c) is ambiguous.⁷⁴

Hypothetical Test

The Third and Ninth Circuits hold that a debtor may not assume an intellectual property license subject to Section 365(c) where applicable non-bankruptcy 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.”⁷⁵ Recently, the Fourth Circuit adopted an even stricter version of the hypothetical test, holding that a nonexclusive software/copyright license expressly permitting assignment in the context of certain corporate transactions (which would likely be sufficient to satisfy the “hypothetical test” in the Third and Ninth Circuits) was not assumable without a licensor’s express consent of such assumption.⁷⁶

Actual Test

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 non-debtor licensor, when the debtor-licensee does not contemplate assignment of the license to a third party.⁷⁷ 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 non-debtor post-petition and thus the non-debtor licensor cannot possibly be harmed by the assumption.⁷⁸

Recently, a US District Court adopted the “actual test” when it allowed a debtor-in-possession to assume an executory contract involving the exclusive right to operate footwear departments in a large retail store chain.⁷⁹ However, the *Footstar* court based its ruling on a novel interpretation of the language of Section 365(c), focusing on the limitation to a *trustee* in the initial clause of Section 365(c).⁸⁰ First the court examined the Bankruptcy Code generally and concluded that the Bankruptcy Code treats a trustee and a debtor or debtor-in-possession as different parties.⁸¹ The court then construed the plain language of Section 365(c)(1) to be inapplicable in the context of a debtor-in-possession seeking to assume an executory contract because the counterparty in such a case would not be forced to accept performance from an entity other than the debtor.⁸² Notwithstanding the *Footstar* court’s plain language reading of Section 365(c), it also relied on legislative history to conclude that Section 365(c) could not have been intended to restrict a debtor or debtor in possession from simply *assuming* an executory contract, citing to a proposed 1980 amendment (that was ultimately adopted in 1984) to Section 365(c) designed to make clear that the trustee’s power to assume an executory contract would not apply to a debtor in possession because the debtor is not an entity other than itself.⁸³ The *Footstar* court maintained that Section 365(c)(1) would still restrict a *debtor* seeking to *assign* its contract since the counterparty would be forced to accept performance from an entity other than the debtor.⁸⁴

Based on the clear circuit split with respect to the interpretation of the ambiguous language in Section 365(c), this issue may soon be ripe for resolution by the Supreme Court.

Copyright Licenses

Exclusive

At least one court has held that an exclusive copyright license is freely assignable without the licensor’s consent, notwithstanding a non-assignability provision.⁸⁵ That said, applicable non-bankruptcy law, federal copyright law, is largely unsettled with respect to the assignability of exclusive copyright licenses. As a result, how a bankruptcy court will rule when a debtor-licensee seeks to assume and assign such licenses will likely depend on which authority such court chooses to follow: (1) *Patient Educ. 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, at least with respect to copyright licenses that are silent on the issue.

Nonexclusive

As discussed previously, several bankruptcy courts have applied Section 365(c)(1) to a nonexclusive copyright license and held that, absent consent by a licensor or express provisions to the contrary, such a license is non-assignable in bankruptcy proceedings.⁸⁶ *Patient Educ. 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. The court rejected the debtor’s claim because “applicable” federal copyright law provides that nonexclusive copyright licenses are personal to the licensee and not assignable without being expressly made so in the agreement.⁸⁷

Patent Licenses

Exclusive

We have located only one case in which Section 365(c)(1) has been applied to an exclusive patent license.⁸⁸ In *Hernandez*, the court concluded that the debtor-licensee could not assign an exclusive patent license with an anti-assignment provision without consent from the licensor. However, in *Superbrace*, a California state court concluded that federal patent law and policy is inapplicable to exclusive patent licenses, but rather state contract law governs these licenses. As discussed previously, the assignability of exclusive patent licenses may depend on the scope of the license and the relevant language in the particular license agreement as well as applicable jurisdiction and governing law. 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. A key deciding factor may well be the initial determination of the appropriate “applicable law” to consider in the assignability determination.

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, absent 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.⁸⁹

Trademark Licenses

We have found one recently published opinion that provides a discussion and analysis concerning the assignability under Section 365(c) of a nonexclusive trademark license. In *N.C.P. Marketing*, the debtor-licensee sought to assume its rights under a nonexclusive trademark license.⁹⁰ The court, citing numerous courts and commentators and

relying on prior decisions in the context of patent and copyright licenses, first held that trademarks are “personal and non-assignable without the consent of the licensor.”⁹¹ Applying the hypothetical test, the court then interpreted the agreements at issue under California contract law and held that the licensor did not give the debtor-licensee the right to assign its rights to third parties.⁹²

Other case law exists that, at first glance, might appear to support the proposition that trademark licenses are assignable without consent. However, at closer examination, such decisions likely apply only in very narrow circumstances or provide insufficient analysis to prove helpful.⁹³

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.⁹⁴ *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 on 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).⁹⁵ The court ruled that the trademark license did not constitute a personal services contract and thus was assignable.⁹⁶ 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* will likely have limited persuasive value.⁹⁷ As noted, 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, non-transferable license at issue was assumed by the trustee, without a hearing, and with approval of the bankruptcy court.⁹⁸ The opinion contains no discussion concerning the propriety of such assumption or even whether the non-debtor licensor objected to such assumption. Thus, *Superior Toy* likely stands for little more than the rather obvious proposition that trademark licenses *can* be assumed.

Additional authority suggests that, in certain circumstances, a trademark license cannot be assumed or assumed and assigned by a debtor-licensee without the

licensor’s consent.⁹⁹ 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.¹⁰⁰ The licensor sought to terminate the license. The debtor-licensee responded stating its intent to assume the license under Section 365.¹⁰¹ 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.¹⁰² 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 assignment of a trademark license is prohibited solely because either the licensor does not consent or 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 assignment of a trademark license.

In light of the foregoing, a court attempting to determine whether a trademark license is assumable or assignable may rely directly on *N.C.P. Marketing* and apply “applicable” non-bankruptcy trademark law to restrict a debtor-licensee from assuming or assuming and assigning a trademark license without the licensor’s consent. As discussed previously, 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. The *Travelot* court agreed with this conclusion, noting in *dicta* that “applicable” federal trademark law would have prohibited a nonexclusive trademark license from being assumable by the debtor absent the consent of the trademark owner.¹⁰³

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 stay¹⁰⁴ 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 365.¹⁰⁵

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.¹⁰⁶ In any event, in order to take advantage of its ability to lift the automatic stay and terminate the license, a licensor would be 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.

Computer Software Licenses

As a general matter, computer software licenses are treated as executory contracts under the Bankruptcy Code.¹⁰⁷ As discussed, however, *Sunterra* makes clear that because there are elements of copyright (and possibly

patent) inherent in every software license, one might expect that applicable non-bankruptcy law concerning the assignability of copyright and patent licenses would apply when analyzing the assignability of a software license.

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 is applicable non-bankruptcy 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.

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.

1. Treatment of executory contracts in bankruptcy is governed by 11 U.S.C. § 365 of the US Bankruptcy Code (Section 365). Although Section 365 does not define the term "executory contract," courts have generally defined 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.*, In re CFLC, Inc., 89 F.3d 673, 677 (9th Cir. 1996). This definition is known as the Countryman definition. *See* Vern Countryman, "Executory Contracts in Bankruptcy," 57 *Minn. L. Rev.* 439, 460 (1973).
2. A debtor-in-possession, with few exceptions not applicable here, generally has the same rights and duties of a trustee. 11 U.S.C. § 1107(a). Thus, for convenience, 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 when the licensor, as opposed to the licensee, seeks to assume or 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 on the jurisdiction.
6. Whether a particular transaction effects 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 will discuss only those situations in which a license expressly prohibits assignment or is silent on the issue. However, note that a non-debtor 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* §§ 365(b)(1) and 365(f)(2).
8. An exclusive license grants the licensee the right to use the subject intellectual property to the exclusion of any third party including 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 with express restriction on assignment to be freely assignable under *Patient Educ. Media*).

10. *Id.* at 239-240.
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 10.02 [B][4] (2001).
14. One might think that because an exclusive copyright license is treated "like" an assignment under the copyright laws, the licensee thus has full title to the licensed copyright, including the right to assign such copyright. However, *Nimmer* contemplates that the assignment of an exclusive copyright license is a transfer of ownership for certain limited purposes only (*e.g.*, standing to sue) and not a complete alienation of rights. Thus, according to *Nimmer*, a licensor may grant an exclusive copyright license and, at the same time, restrict the licensee's ability to assign that exclusive copyright license by virtue of express contractual restrictions. *Id.* Put another way, the express contractual restrictions on assignment do not make an otherwise exclusive copyright license nonexclusive. *See* §10.02[B][4].
15. *See* Gardner, 110 F. Supp. 2d at 1286-1287, 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.").
16. *Id.*, 279 F.3d at 779-780.
17. *Id.* at 781 ("Placing the burden on the licensee assures that the licensor will be able to monitor the use of the copyright.").
18. Gardner, 110 F. Supp. 2d at 1286-1287 n.4. *But see* Golden Books, 269 B.R. at 318-319 (holding 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); Traicoff v. Digital Media, Inc., 439 F. Supp. 2d 872, 879 (D. Ind. 2006) (holding exclusive copyright license freely assignable under *Patient Educ. Media*, stating that Gardner's interpretation of "protection and remedies" inconsistently encompasses some but not all owner's rights under the Copyright Act).
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 Sunterra Corp., 361 F.3d 257 (4th Cir. 2004) (consent required to assign nonexclusive copyright/software license); In re Golden Books Family Entm't, Inc., 269 B.R. 300, 310 (D. Del. 2001) (holding nonexclusive copyright license that restricts

- assignment to be non-assignable); In re Buildnet, Inc., 2002 WL 31103235 (Bankr. M.D.N.C. 2002) (same); Ariel (U.K.) Ltd. v. Reuters Group PLC, 2006 WL 3161467, *6 (S.D.N.Y. 2006) (same).
24. *Patient Educ. Media*, 210 B.R. 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. In re *Hernandez*, 285 B.R. 435 (D. Ariz. 2002); *Superbrace, Inc. v. Tidwell*, 21 Cal. Rptr. 3d 404 (4th Dist. 2004).
 28. The license at issue in *Hernandez* did allow the licensee to assign his rights to a wholly owned subsidiary of licensee or to an entity that licensee controlled. *Id.* at 437. *Hernandez*, 285 B.R. at 439–440.
 29. *Id.* at 439.
 30. *Id.* at 439 (citing *Waterman v. MacKenzie*, 138 U.S. 252, 255 (U.S. 1891)).
 31. *Id.* at 440.
 32. *Id.* at 439–440.
 33. Although *Hernandez* did not explicitly identify what distinguishes a grant of exclusive license from an assignment, *Hernandez* and the cases cited suggest that any grant of a right to use a patent that does not fall within the previously cited three circumstances under which a patent is considered “transferred,” is a license. For example, in *Etherington*, the Fifth Circuit concluded that an exclusive patent licensee in an industry-specific field of use was a licensee, not an assignee for the purpose of deciding whether the licensee has standing to bring a suit for patent infringement in its own name. 290 F.2d at 29–30. *Id.* (citing *Etherington v. Hardee*, 290 F.2d 28 (5th Cir. 1961)).
 34. *Id.* at 440–441.
 35. *Superbrace*, 21 Cal. Rptr. 3d 404.
 36. In *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732 (Cal. 1957), the court initially noted that “every action that involves, no matter how incidentally, a United States patent is not for that reason governed exclusively by federal law.” 308 P.2d. 732. The court then concluded that the enforcement or interpretation of licenses do not arise under any act of Congress or depend upon the construction of any law in relation to patents and thus have no statutory basis. *Id.* Thus, rights under such licenses “arise from contract rather than from the fact that patent rights are involved.” *Id.* Based on the foregoing, the Court concluded that there was “no policy underlying the federal patent statutes that requires a uniform federal rule of construction of license contracts to determine assignability.” *Id.*
 37. *Superbrace* at 407.
 38. The *Superbrace* court asked whether the exclusive patent license at issue “imposed duties of such a personal nature that their performance by someone else would in effect deprive the other party of that for which he bargained” noting that “[t]he duties in such a situation cannot be delegated” *Id.* at 414 (citing *Dopplmaier*, 308 P.2d 740–741).
 39. *Id.* at 415–416.
 40. See, e.g., *Aluminum Co. of Am. v. Norton Co., Inc.*, 27 U.S.P.Q.2d 1317, 1319, 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.2d 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, 633–634 (D. N.J. 1992) (same); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874–75 (N.C. 1991) (same); see also *Conde Nast Publ’n Inc. v. U.S.*, 575 F.2d 400, 404 (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 Joint Marketing Int’l, Inc. v. L&N Sales and Marketing, Inc.*, 2006 WL 1995130, *4–5 (E.D.N.Y. 2006) (exclusive licensee’s inability to assign its rights without prior written consent suggests licensee was granted less than “all substantial rights.”); *Pfizer Inc. v. Elan Pharm. 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 alone); *Raber v. Pittway Corp.*, 23 U.S.P.Q.2d 1313, 1992 WL 219016, *3 (N.D. Cal. 1992) (same)).
 41. See *Ciba-Geigy*, 804 F. Supp. at 630–633.
 42. See e.g., *Hernandez*, 285 B.R. at 439 (“recognition that an exclusive licensee has a sufficient property interest to give her standing to sue to protect her licensed patent from infringement does not mean she can freely assign her exclusive license.”) Although *Hernandez* makes this logical distinction, it is important to note that *Hernandez*’s holding was based on case law that determined the assignment issue in the context of deciding whether a patent licensee had standing to sue. See discussion, *supra* n.13.
 - McNeilab, Inc. v. Scandipharm, Inc.*, 95 F.3d 1164, 1996 WL 431352, *5 (Pa 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 Chem. Co.*, 726 F. Supp. 983, 986 (D. Del. 1989) (noting that “[j]ust 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”). See also, In re *Supernatural Foods, LLC*, 268 B.R. 759, 798 (M.D. LA 2001) (“crucial concepts regarding assignment versus license . . . are that the purported assignment convey the entire and unqualified monopoly, at least regarding a specified territory.”)
 43. In re *CFLC, Inc.* 89 F.3d at 673, 679 (9th Cir. 1996).
 44. *CFLC*, 89 F.3d at 679.
 45. In re *N.C.P. Marketing Group, Inc.*, 337 B.R. 230, 236–237 (D. Nev. 2005).
 46. *N.C.P. Marketing* at 236.
 47. 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); In re *Travelot Co.*, 286 B.R. 447, 453–455 (S.D. Ga. 2002) (noting in dicta that federal trademark law is “applicable” law under Section 365(c) and that grant of a nonexclusive trademark license is “an ‘assignment in gross,’ that is, one personal to the assignee and thus not freely assignable to a third party”); 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).
 48. *Gorenstein Enter, 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.” *Gorenstein Enter, Inc. v. Quality Care-USA, Inc.*, 847 F.2d. 431, 435 (7th Cir. 1989).
 49. *Id.*
 50. *McCarthy*, *supra* n.47 at § 25:33.
 51. The case law and commentary do not appear to distinguish between exclusive and nonexclusive trademark licenses, perhaps because a licensor always maintains its duty to control the quality of goods and services sold under the licensed mark, whether the trademark license is exclusive or nonexclusive. However, the *N.C.P. Marketing* court, in dicta, did provide some indication that it may have decided differently had the trademark license at issue been exclusive. 337 B.R. at 237 (citing, with no additional discussion, case law stating that that an exclusive trademark license assigns the exclusive ownership and goodwill in the trademarks).
 52. See, e.g., In re *Sunterra Corp.*, 361 F.3d 257 (4th Cir. 2004); *SQL Solutions*, 1991 WL 626458.
 53. See *SQL Solutions* at *5–6 (noting “[i]t is well established that computer programs are ‘works of authorship’ subject to copyright” and holding nonexclusive copyright license that expressly restricted assignment non-assignable absent licensor’s consent); *Sunterra*, 361 F.3d at 262, note 7 (by virtue of registration of computer programs with the US Copyright Office, federal copyright law is the applicable non-bankruptcy law precluding assignability of nonexclusive software license).
 54. See *Norton Bankr. Law & Practice*, 2d § 151:33.50 (2000) (“A nonexclusive patent license component could be implied whenever the licensor holds a patent in the software’s functionality and the licensee’s use of the software would, absent a patent license, violate the patent.”).
 55. *Verson Corp. v. Verson Int’l Group*, 899 F. Supp. 358 (N.D.Ill. 1995).
 56. 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.
 57. *Verson* at 363.
 58. See, e.g., *CFLC*, 89 F.3d at 677.
 59. See § 365(f).
 60. See 11 U.S.C. § 365(c)(1) which states in its entirety:
The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—(1)(A) applicable law excuses a party other than the debtor to such contract or lease from accepting performance or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and (B) such party does not consent to such assumption or assignment.
 61. “Personal services” contracts are considered to be non-assignable 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 non-delegable and thus non-assignable without the non-performing party’s consent. See, e.g., In re *Rooster, Inc.*, 100 B.R. 228, 232–233 (E.D. Pa. 1989).

- 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). But most courts adhere to the more reasoned view that Section 365(c) applies more broadly. *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, 587–588 (N.D. Tex. 1998).
62. *See Hernandez*, 285 B.R. at 439–440 (debtor-licensee may not assume exclusive patent license without consent); In re Catapult Entm’t, Inc., 165 F.3d 747, 754–755 (9th Cir. 1999) (debtor-licensee may not assume nonexclusive patent license without consent), *cert. dismissed*, 120 S. Ct. 369 (1999); In re Access Beyond Tech., Inc., 237 B.R. 32, 48–49 (D. Del. 1999) (debtor-licensee may not, without consent, assume and assign non-exclusive patent license that is silent on the issue of assignment); *Patient Educ. Media*, 210 B.R. at 242–243 (nonexclusive copyright license with anti-assignment provision not assignable without consent); N.C. Publishing, 337 B.R. at 236 (non-exclusive trademark license not assignable without consent).
- Although outside of the scope of this article, it is worth noting that the issues raised by the interpretation and application of Section 365(c)(1) are also implicated in another provision of the Bankruptcy Code. Under Section 365(e), a provision in an executory contract that provides for termination or modification of such contract upon the insolvency or financial condition of a debtor, the commencement of a bankruptcy proceeding or the appointment of, or taking possession by, a trustee (generally called *ipso facto* clauses) is generally unenforceable. *See* Section 365(e)(1). However, Section 365(c)(2)(A) provides for an exception to this general rule of unenforceability under essentially the same circumstances as set forth in Section 365(c)(1). Thus, it is possible that a non-debtor-licensor may have a basis to actually enforce an *ipso facto* clause and terminate the debtor-licensee’s intellectual property license without ever having to reach the question of assignability.
63. *See supra* n.3 for an example of the definition of executory contracts adopted by courts. 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.
64. Some 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., CFLC, Inc.*, 89 F.3d at 677; *see also* In re Exide Technologies, 340 B.R. 222, 235 (D.Del. 2006) (holding exclusive trademark license to be executory because licensor’s agreement not to use licensed trademark was a continuing material obligation.); *but see Gencor Indus., Inc. v. CMI Terex Corp.*, 298 B.R. 902 (M.D. Fla. 2003) (discussed below).
- See, e.g., Sunterra*, 361 F.3d at 264; *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, 490–491 (1st Cir. 1997); *cert. denied*, 521 U.S. 1120 (1997) (recognizing patent license as executory); *Matter of Superior Toy & Mfg. Co. Inc.*, 78 F.3d 1169 (7th Cir. 1996) (recognizing trademark license as executory).
65. *See supra* n.3.
66. *Id.* at 911 (citations omitted).
67. *Id.*
68. *Id.* at 912.
69. *Id.*
70. *See* In re DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995).
71. *Id.* at 1093.
72. *Id.* at 1095–1096.
73. 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.
74. The ambiguity stems from the “assume or assign” language in Section 365(c)(1) and whether the disjunctive “or” is strictly construed to mean what it says or interpreted to mean the conjunctive “and.”
75. *Access Beyond*, 237 B.R. at 48–49 (nonexclusive 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 754–755 (debtor may not assume nonexclusive patent license because federal patent law prohibits assignment of such license without consent); *see also N.C.P. Marketing*, 337 B.R. at 234–235. The Sixth and Eleventh Circuits have applied the hypothetical test in a non-intellectual property context. *In re James Cable Partners, L.P.*, 27 F.3d 534 (11th Cir. 1994); *In re Magness*, 972 F.2d 689 (6th Cir. 1992) (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 patent license rights “supersedes assignment rights under Section 365 of the Bankruptcy Code.”) *rev’d in part*, 1997 WL 189314 (N.D. Ill. 1997).
76. *Sunterra*, 361 F.3d at 271.
77. *Institut Pasteur*, 104 F.3d 489.
78. *Id.* at 493–494; *see also* Matter of GP Express Airlines, Inc., 200 B.R. 222, 231–233 (D. Neb. 1996) (accepting “actual test” as applied to airline contract); *Texaco Inc. v. Louisiana Land and Expl. Co.*, 136 B.R. 658, 668–671 (M.D. La. 1992) (“actual test” applied to mineral contract); *cf. In re Glycogenesys, Inc.*, 2006 WL 3013900, *7 (Bkrt’y. D. Mass. 2006) (debtor permitted to assume and assign exclusive patent license that expressly allowed assignment to a successor of “all or substantially all of debtor’s business.”).
79. In re Footstar, Inc., 323 B.R. 566 (S.D.N.Y. 2005).
80. *Id.* at 570–571.
81. *Id.*
82. *Id.* at 573; § 365(c)(1).
83. *Id.* at 574.
84. *Id.* at 575.
85. *Golden Books*, 269 B.R. at 318–319.
86. *See Patient Educ. Media*, 210 B.R. at 240–241; *Golden Books*, 269 B.R. at 311; *Buildnet*, 2002 WL 31103235, at *5.
87. *Patient Educ. Media*, 210 B.R. at 242–243. *See generally* In re Sunterra, 361 F.3d 257 (4th Cir. 2004).
88. *Hernandez*, 285 B.R. at 439–440.
89. *Access Beyond*, 237 B.R. at 45–47. *See also Catapult Entm’t*, 165 F.3d at 750–755 (federal patent law made nonexclusive patent licenses personal and non-delegable, and thus not assignable without licensor’s consent).
90. *N.C.P. Marketing*, 337 B.R. at 233.
91. *Id.* at 237.
92. *Id.* at 237–238. The agreements at issue only allowed the debtor-licensee to assign its rights under very narrow circumstances, none of which applied in this context. *Id.*
93. *See Rooster*, 100 B.R. 228; *Superior Toy*, 78 F.3d 1169.
94. 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. 100 B.R. at 235.
95. 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, note 6.
96. *Id.* at 232.
96. 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.
97. 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.
98. *Superior Toy*, 78 F.3d at 1170.
99. In re Luce Indus., Inc., 14 B.R. 529 (S.D. N.Y. 1981); *Travelot*, 286 B.R. at 454–455.
100. *Luce* did not specify whether the license at issue was exclusive or nonexclusive.
101. *Luce*, 14 B.R. at 530.
102. *Id.* at 530–531.
103. *Travelot*, 286 B.R. at 454–455.
104. 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).
105. *See, e.g., Matter of Indep. Mgmt. Assoc., Inc.*, 108 B.R. 456, 465–466 (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).

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106. See *In re B-K of Kansas, Inc.*, 69 B.R. 812, 815–816 (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).
107. *Sunterra*, 361 F.3d at 264 (holding that upon filing of the bankruptcy petition, each party owed at least the continuing material duty to maintain the confi-

dentiality of the source code of the software developed by the other under the license agreement at issue); *but see DAK Indus.*, 66 F.3d at 1095–1096 (software "license" characterized as a sale, and thus, could be deemed non-executory). Our research to date has disclosed at least one case addressing whether a software license could be assumed (and not assigned) in the bankruptcy context. *Sunterra*, 361 F.3d at 257. *Sunterra* applied the "hypothetical" test to a software license, holding such license could not be assumed by the debtor-licensee over the licensor's objection under federal copyright law, even though the license expressly permitted assignment in the context of certain corporate transactions. *Sunterra*, 361 F.3d at 271.

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