E. DIP's Ability to Assign Intellectual Property Licenses

The DIP's ability to assume and assign an executory contract, discussed above, is limited by Bankruptcy Code §365(c) and (f). Section 365(f) provides, in pertinent part:

> (1) Except as provided in subsection (b) and (c) of this section, notwithstanding a provision in an executory contract...of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract... the [DIP] may assign such contract...under paragraph (2) of this subjection.

However, §365(c) provides, in pertinent part:

> The [DIP] may not assume or assign any executory contract...of the debtor, whether or not such contract...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...from accepting performance from or rendering performance to an entity other than the debtor or the debtor-in-possession, whether or not such contract...prohibits or restricts assignment of rights or delegation of duties; and (B) such party does not consent to such assumption or assignment....

These two provisions are not easily reconciled. The bankruptcy courts and other federal courts generally take the position that licenses of intellectual property (specifically patents and copyrights) are governed by nonbankruptcy

federal law, and as such, cannot be assigned by a debtor without the consent of the licensor. *Troy Iron & Nail Factory v. Corning*, 55 U.S. 193 (1852); *Unarco Indus. Inc. v. Kelley Co. Inc.*, 465 F.2d 1303 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973) (state law does not apply to patent licenses that are creatures of federal law).

Some courts, including some state courts, do not agree with this position. *See Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732 (Cal. 1957) ("We can find no policy underlying the federal patent statutes that requires a uniform federal rule of construction of license contracts to determine their assignability."); *Superbrace Inc. v. Tidwell*, 21 Cal. Rptr. 3d 404 (Ct. App. 2004) (same, notwithstanding 1972 *Unarco* decision). *But see Verson Corporation v. Verson International Group PLC*, 899 F.Supp. 358, 363 (N.D. Ill. 1995) ("Under well-established law the holder of a nonexclusive patent license may not assign its license unless the right to assign is expressly provided for in the license agreement.").

Most courts follow the decision in *Unarco* and hold that based on §365(c), nonexclusive licenses for intellectual property cannot be assigned by a bankruptcy debtor without the consent of the owner of the intellectual property. The "long-standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement." *Unarco*, 465 F.2d at 1306. *See also Access Beyond Technologies*, 237 B.R. at 45 (patent licenses could not be assigned); *Perlman v. Catapult Entertainment Inc. (In re Catapult Entertainment Inc.)*, 165 F.3d 747 (9th Cir. 1999) (federal patent law makes patents personal and unassignable without consent of licensor); *In re Golden Books Family Entertainment Inc.*, 269 B.R. at 307-10 (copyright licenses personal and unassignable without

consent); *In re Valley Media Inc.*, 279 B.R. 105 (Bankr. D. Del. 2002); *In re N.C.P. Marketing Group Inc.*, 337 B.R. 230 (D. Nev. 2005) (trademark not assignable).[49]

Moreover, four circuit appellate courts have held that because §365(c) does not allow the assignment of nonexclusive intellectual property licenses, under what has been labeled the *hypothetical test* a DIP also may not "assume" such licenses, even if the DIP does not intend to assign the contract. *See Sunterra Corp.*, 361 F.3d at 269; *Catapult*, 165 F.3d at 750; *City of Jamestown v. James Cable Partners L.P. (In re James Cable Partners L.P.)*, 27 F.3d 534, 537 (11th Cir. 1994); *In re West Electronics Inc.*, 852 F.2d 79, 83 (3d Cir. 1988). *Catapult* is considered the leading case on the hypothetical test.

> The literal language of §365(c)(1) is thus said to establish a 'hypothetical test': a debtor-in-possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor-in-possession has no intention of assigning the contract in question to any such third party.

Catapult, 165 F.3d at 750.

---

49 While intellectual property law clearly recognizes trademarks to be intellectual property, as noted above the Bankruptcy Code definition of intellectual property does not include trademarks. 11 U.S.C. §101(36A). In *N.C.P. Marketing*, *supra*, the most recent bankruptcy case to consider trademarks, the district court held that:

> [t]rademarks are valuable property rights that allow their owners to protect the good will [sic] of their name and products by preventing unwarranted interference and use of their mark by others...
>
> Because we find that under applicable trademark law, trademarks are personal and non-assignable without the consent of the licensor, the [licensor's] trademark would be unassumable as part of the bankruptcy estate of NCP without the [licensor's] consent.

Id. at 236.

The First and Fifth Circuits have adopted an alternative *actual test* under which a DIP may assume a nonexclusive intellectual property license if it specifically does not intend to assign the license. Under this test, the DIP is not allowed to assume the nonexclusive license only if there will be an actual assignment that will materially impair the benefit of the bargain. *Bonneville Power Administration v. Mirant Corp. (In re Mirant Corp.)*, 440 F.3d 238 (5th Cir. 2006); (interpreting actual test in context of §365(e)); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir. 1997). The *Mirant* court explained the actual test as follows:

> The actual test requires on a case-by-case basis a showing that the nondebtor party's contract will actually be assigned or that the nondebtor party will in fact be asked to accept performance from or render performance to a party—including the trustee—other than the party with whom it originally contracted.

Mirant, 440 F.3d at 248.

Importantly, absent consent from the nondebtor party to a nonexclusive intellectual property license, the debtor cannot assume the nonexclusive license if there will also be an assignment and, in a majority of courts, may not assume the nonexclusive license without consent whether or not there is an intended assignment. Thus, depending on where the debtor files its bankruptcy petition, debtors with nonexclusive intellectual property licenses may run the risk of losing their intellectual property licenses in bankruptcy if the nondebtor party does not consent to continued use of the license.