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Intellectual Property Law in Bankruptcy Court: The Search for a More Coherent Standard in Dealing with a Debtor's Right to Assume and Assign Technology Licenses

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"We must not make a scarecrow of the law, Setting it up to fear the birds of prey. . ."

William Shakespeare, Measure for Measure, act 2, sc. 1.

The financial crisis occurring in the high technology and telecommunications sector of the national economy, beginning roughly in March 2000 and continuing through 2001, has been the focus of much economic and legal debate. [2] The financial debris of the excess exuberance has now fallen into the bankruptcy courts, or simply led to many companies collapsing quietly into the night. [3] This financial distress has led to increased concern over the proper role of the bankruptcy system in dealing with this economic crisis. For example, the National Conference of Bankruptcy Judges, at its annual meeting in October 2000, devoted a substantial portion of its program to the issue of whether chapter 11 of the U.S. Bankruptcy Code (the "Code") [4] offers a meaningful legal tool for the rehabilitation and restructuring of high−technology companies. The short answer may be that it does not.

The significant influx of high technology companies into the bankruptcy courts has already led to a series of decisions which, in retrospect, do a disservice to the notion of reorganization and to the protection of patent owners alike. The high technology cases are bringing to the surface problems with bankruptcy law theories which pre−date this recent economic crisis, and which have long needed further attention. Thus, over the next few years we are likely to see a series of bankruptcy court decisions that challenge entrenched views of intellectual property law. Normative intellectual property doctrines, when exposed to the hue and cry of unpaid creditors, may also undergo change in order to maximize the value of a bankruptcy estate. Likewise, bankruptcy law, which has already exhibited a high degree of dysfunction in dealing with pre−petition contract relationships between debtors and non−debtors (under the rubric of "executory contracts") may find that the dysfunction is less tolerable, and must give way to better reasoned decisions or congressional action.

Purpose and scope

The purpose of this Article is to examine certain pivotal legal issues arising from the intersection, or collision, of intellectual property and bankruptcy law. In Part I of this Article, it is suggested that there is a serious, but not immutable tension between the core policies and values that underlie each system of law. On one hand, there is a body of non−statutory, "federal common law" which holds that patent and copyright licenses are non−assignable without the consent of the patent or copyright owner. This notion that there is, or should be, a body of "federal common law" which restricts assignment, has been followed somewhat blindly by the bankruptcy courts, without much critical analysis or examination. Having been repeated and followed as the accepted wisdom, it is at the core of the problem confronting high technology companies that seek to reorganize.

On the other hand, there is the equally important bankruptcy policy of promoting free assignability of contracts and the maximization of a debtor's bankruptcy estate. [5] This notion that most commercial contracts are "assignable" is deeply embedded in the complex statutory Code sections dealing with "executory contracts" found in section 365 of the Code. Section 365 describes the substantive rights, and limits, of a debtor with respect to its pre−petition contractual relationships. These rights include the right of a debtor to "assume" an executory contract and then to assign or sell the contract to a third party. For the most part, section 365 reflects the Code's core value of free assignability by permitting assignments often without regard to contract provisions or legal barriers that would otherwise prohibit assignment outside of bankruptcy.

Part I describes these core values, and looks briefly at the reasons that underlie each concept. Part I of this Article also describes the current dysfunctionality which has arisen independently of the high technology era when bankruptcy law seeks to deal with "executory contracts" and notions of assignability. Section 365, however, with its maze of contradictory and impenetrable rules for assignability, has led to wholly unsatisfactory result as the courts struggle to determine where the limits of free assignabilty may lie. Long before the dot.com bubble burst the bankruptcy courts were struggling to develop coherent rules of when contracts could be assigned, and when not. The high technology crisis has brought this dilemma into full focus and created a more pressing problem.

Part II examines the current case law where this notion of free assignability, has come into direct clash with the equally embedded theory that intellectual property licenses cannot be freely assigned by debtor−licensees. This clash was inevitable. Intellectual property rights, such as licenses, are embedded and memorialized in pre−petition contractual relationships and are considered to be executory contracts. A debtor's ability to reorganize under chapter 11 of the Code is largely dependent on whether intellectual property law theories of non−assignability will, or should, yield to the bankruptcy value of free assignability. Thus far, there has been little yielding. Part II looks at the leading cases that, to date, refuse to permit debtors to assume and assign their intellectual property licenses by adopting a "per se" rule arising from the so−called federal common law of patents. This body of case law has created legal barriers to assumption and assignment of patent and copyright licenses which pose nearly insurmountable barriers to successful reorganization.

Part III of this Article suggests that the current state of the law requires re−examination and adjustment. First, the notion that there is a body of federal common law which restricts assignment of patent licenses is likely to be questioned, thus bringing into play ancient notions from *Erie v. Tompkins*. [6] Second, debtors may demand that the courts re−think the proper role of section 365, and harmonize the statutory tensions which have led to conflicting rules that mar both the high technology area, and other areas of executory contract law. Part III suggests that there is a need to find a better, more fact specific approach to the problem of dealing with the assignability of patent and copyright licenses. Such an approach must look more to a "materiality" standard, which examines the impact of assignment on the non−debtor, and simply jettisons the current "per se" approach. Part III suggests that such an approach provides adequate protection to patent owners, but nevertheless makes chapter 11 a viable option for high technology companies.

Throughout this Article the major focus will be on patent law, with some attention being given to copyright law as well. It is hoped, however, that the general principles of intellectual property law and bankruptcy law will provide useful guidance and insight on a broad range of related issues in this field.

Part I

The Core Tension: The Patent and Copyright Monopoly

To understand the nature of the conflict between intellectual property and bankruptcy law, it is useful to examine the core values that underlie both patent and copyright law. By intellectual property law we mean generally the body of law dealing with patents, copyrights, and trademarks. [7]

Patent law finds its elemental expression in Article I, clause 8, section 8 of the United States Constitution, which authorizes congress to promote the "Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the Exclusive Right to their respective Writings and Discoveries." Pursuant to this grant of power, Congress has enacted 35 U.S.C. § 101 *et. seq.* (the "Patent Act"). [8]

The Patent Act supports the economic engine of high technology by providing that one who invents or discovers any new or useful process, machine, manufacture, or composition of matter may apply for a patent. [9] One of the most valuable rights of a patent is the power to exclude all persons from practicing the patented invention during the effective period of the patent. [10] This power to exclude others gives the holder of a patent a "monopoly" sanctioned by the U.S. Government, with the monopoly being viewed as the "essence of the patent." [11]

Ownership and assignment of patents is controlled to a limited extent by the Patent Act. The Patent Act states that "patents shall have attributes of personal property." [12] Because a patent is a recognized property interest, a patent, or an application for a patent "shall be assignable in law by an instrument in writing." [13] Nothing in the Patent Act, however, in any way limits or restricts assignability of patent licenses.

The terminology utilized in this field with respect to transfers has acquired a somewhat specialized meaning, with important distinctions between "assignment" and "license" and further distinctions between a non−exclusive license and an exclusive license. Broadly speaking, an assignment refers to a transfer of the "whole patent," and a transfer or grant of a lesser right being viewed as a mere "license." [14] The Supreme Court stated this distinction as follows:

The patentee or his assigns may, by instrument in writing, assign, grant, and convey, either (1) the whole patent, compromising the exclusive right to make, use and vend the invention throughout the United States; or (2) an undivided part or share of that exclusive right; or (3) the exclusive right under the patent within and throughout a specified part of the United States. A transfer of these three kinds of interests is an assignment, properly speaking, and vests in the assignee a title or so much of the patent itself. . . Any assignment or transfer, short of one of these is a mere license. [15]

Licenses are typically classified as either exclusive or non−exclusive. It has been suggested that some courts "do not actually consider a license as a transfer. . . but simply an agreement by the patent owner not to sue a party for infringement for engaging in specific acts." [16] That statement may be overbroad. The distinction between exclusive and non−exclusive licenses has acquired a specialized meaning in the area of intellectual property law. When an owner of a patented technology grants an exclusive license to a transferee, the transferee generally acquires full ownership and control of an undivided part or share of the whole, or for a specific geographic area. [17] From this perspective an exclusive license is more akin to a sale or completed transfer.

Conversely, patented technology may be distributed or transferred to end users through non−exclusive licenses. Here, the owner/inventor of the patented technology is not relinquishing full title. The holder of the patent has a limited right to use the technology, but not the right to distribute or sell the technology to third parties. [18] The owner typically covenants to defend against infringement.

Copyright law follows much of the same pattern. Federal copyright law is found in 17 U.S.C. § 101 *et. seq.* (the "Copyright Law"). [19] The Copyright Law combines the essential attributes of a monopoly with the notion of non−assignability. "The copyright law, the spirit of which is embodied in section 106, grants a limited monopoly to the copyright owner to exploit his creation." [20] Likewise, the policy behind this federal monopoly is to stimulate and protect creativity: "It 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." [21]

The Copyright Law recognizes the distinction between an exclusive license and a non−exclusive license. [22] Thus, it is said that a "'transfer of copyright ownership' includes the grant of an exclusive license, but not a non−exclusive license." [23] The holder of the exclusive license is entitled to all the rights and protections of the copyright owner to the extent of the license. [24] Conversely, "[T]he non−exclusive license does not transfer any rights of ownership; ownership remains in the licensor." [25]

Federal "common law" of non−assignability

Related to, but separate from these notions of ownership and personal property that are purely statutory, is the "federal common law" of patents and copyrights. The phrase "federal common law" refers to a body of judge made law that is based on perceived policies and goals, and deals with such matters as "general commercial law." It is to be distinguished from both state and federal statutory law. In considering the propriety of applying federal common law, one must keep in mind the Supreme Court's admonition that the creation and application of federal common law is the exception, and not the rule ("There is no federal general common law"). [26] Ordinarily, common law is a creature of state law, and thus the federal courts, when sitting in a diversity case, typically look to state common law as the basis for decision making. This, of course, is the central thesis of the famous decision of *Erie Railroad Co. v. Tompkins*. [27]

Prior to *Erie*, the Supreme Court had announced the general principle that patent licenses are not assignable without the consent of the patent owner. [28] Thus, it is said that interests in a patent license, being merely personal property, "are not assignable unless expressly made so," and that further, "this has been the rule at least since 1852 when the Supreme Court decided *Troy Iron & Nail Factory v. Corning*." [29]

In *Erie*, the Supreme Court rejected the then current view that there was a body of law, general in nature, and not dependent upon local law or statutes which applied to the "construction of contracts or other written instruments and especially to questions of general commercial law." [30]

Subsequent to *Erie*, the federal courts have continued to apply the general rule of non−assignability, often without considering whether under *Erie* the assignment of a contract right is a matter of "general commercial law," such that the federal courts are to look to state substantive law for the source of judicial decision−making. [31] However, in 1972, the Seventh Circuit, in *Unarco Industries, Inc. v. Kelley Company*, [32] squarely addressed the issue and held that patent assignments were an exception to the *Erie* rule:

The long−standing federal rule with respect to assignability of patent license agreements provides that those agreements are personal to the licensee and not assignable unless expressly made so in the agreement. [33]

The Seventh Circuit further held that the rule of non−assignability should pertain, regardless of state law, which sometimes provides for free assignability. [34] The *Unarco* court held that despite the general disinclination to adopt "federal common law," patent law is an exception to the *Erie* rule. [35] This exception to *Erie* was justified on the grounds that the policy of patent law is "so dominated by the sweep of federal statutes that legal relations must be deemed governed by federal law having its source in those statutes rather than by local law." [36] Thus, the court stated:

This monopoly conferred by federal [Patent] statute as well as the policy permeating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law.

We are of the opinion that the question of assignability of patent licenses is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold that federal law applies to the question of the assignability of the patent licenses in question. [37]

The notion that "any question" with respect to the assignment of a patent is a matter of federal common law is debatable, and likely to be wrong. For example, one commentator has noted: "The Supreme Court has long held that suits brought on a contract in which a patent is the subject matter, and which generally do not involve the validity or construction of a patent, are not cases under the patent law, and are within the jurisdiction of the state courts." [38]

Nevertheless, most courts continue to rely upon and follow the rule that under the federal common law, a non−exclusive patent and copyright licenses cannot be assigned without the consent of the owner. [39] The Seventh Circuit view in *Unarco* remains the accepted view today. [40] The Sixth and Ninth Circuits have joined the Seventh Circuit in holding that federal common law governs the matter of patent assignments. [41] The Ninth Circuit, however, questioned whether *Unarco* overstated some of the justifications for the rule, and acknowledged that there are "serious issues" as to whether federal common law should apply. [42] The California Supreme Court has flatly rejected this notion that federal common law should apply. [43]

Generally, the same concepts of non−assignability apply to copyrights. Thus, in referring to the "historic kinship between patent law and copyright law," one court framed the rule of non−assignability of copyrights by borrowing from the law pertaining to patents: "Accordingly, the non−exclusive license is personal to the transferee. . .and the licensee cannot assign it to a third party without the consent of the copyright owner." [44]

The rule with respect to trademarks may be different. A recent article suggests that the rights of a trademark holder regarding control over the use of its mark are limited, and thus the assignment of a trademark without the consent of the owner does not have the same implications. [45] Accordingly, a number of courts have permitted trademark licenses to be assumed or assigned. [46]

Whether, in fact, all courts will continue to agree that "federal common law" should pertain, as opposed to a less restrictive rule of assignability under state law, is discussed in Part III, below. Suffice it to say that the prevailing rule is that federal common law does pertain, and that, accordingly, a core value of patent and copyright law is that non−exclusive licenses are not freely assignable.

The bankruptcy perspective; free assignability of contracts and ease of liquidation

These fundamental concepts of monopoly and non−assignability, which are core values under patent and copyright law, have led to a much−noted conflict with equally important policies and goals in the bankruptcy system. [47] The central premise of chapter 11 is that of preserving on−going value and maximizing the economic return to all constituents of the failing enterprise, which includes creditors, employees and owner−shareholders. [48] This goal, in turn, is reflected in various statutory sections that seek to expedite the sale of assets out of a debtor's estate, including the right to assign contracts regardless of non−bankruptcy law and contractual provisions to the contrary. [49]

The core clash between intellectual property and bankruptcy law has mostly arisen in the context of the Code's treatment of "executory contracts" under 11 U.S.C. § 365, which controls a debtor's right to "assume" and then to "assign" executory contracts. [50] The term executory contract is not defined in the Code, and has undergone a mild revolution in the last 10 years concerning its proper definition and scope. The conventional view is that an executory contract is one in which performance remains due and owing by both parties, the failure of which to complete would constitute a material breach. [51] Because license agreements are almost uniformly viewed as being "executory contracts," cases arising under the Code have had to deal with supposedly intrinsic differences and tensions between a rule which seeks to limit assignment and a bankruptcy policy which favors assignment.

At the outset of a bankruptcy case, a debtor will begin the process of deciding which of its pre−petition contracts should be assumed, which should be rejected, and which should be "sold" or assigned in order to create a source of capital for its reorganization. [52] In the typical case, assumption is undisputed and free from legal wrangling, requiring only a modest showing by the Debtor of sound "business judgment." [53]

Once a debtor has assumed an executory contract (which requires court approval) the debtor then possesses the legal power (in most cases) to assign the contract to third parties. [54] The right to assign valuable contract rights is often the core right that makes a chapter 11 reorganization feasible. In most cases, the right to assign a contract overrides significant non−bankruptcy law and contractual prohibitions otherwise restricting assignment. Thus, section 365(f) severely limits a non−debtor's right to restrict an assignment of contract rights, stating as follows:

(f)(1) Except as provided in subsection (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.

The level of judicial activism in expanding the notion of free assignability under section 365(f) is quite striking, especially in the area of commercial real estate leases. The case law has expanded this Code section to mean that any provision in a commercial lease, which has the "effect" of making assignment more difficult, is likely to be unenforceable. [55] Thus, a landlords' efforts to prohibit or limit the assignment of leases to new tenants, without their consent, has met with nearly wholesale failure in the bankruptcy courts. Even under the more restrictive rules that pertain to shopping center leases, [56] courts have generally looked only to the credit worthiness of the assignee to insure that the landlord's "bargain" is protected. [57]

Thus, the normative bankruptcy rule is that pre−petition contracts are assets of the bankruptcy estate, and that such contracts should be freely assignable in the context of a bankruptcy case, subject to certain minimal notions that protect the benefit of the bargain for the non−debtor. [58] Case law strongly supports and mandates such a view. [59] This right to freely assign contracts creates a business result that cannot be obtained under normal state law rules, and in this sense, bankruptcy notions have pre−empted state law. Free assignability, therefore, is a core bankruptcy value and a fundamental element of the business strategy of a chapter 11 case.

The Bankruptcy Code's dysfunctionality: sections 365(c) and 365 (f)

While the normative rule favors free assignability in bankruptcy, the Code also recognizes that in many important areas assignment of contracts should be prohibited or restricted. Unfortunately, in trying to carve out the exception to free assignment and to articulate a coherent test, the Code draftsmanship exhibits one of its greatest areas of dysfunction, leading to continued dispute and debate.

The basic bankruptcy test is that contracts usually cannot be assigned by a debtor to a third party, if the performance by the debtor itself is material to the non−debtor party. This "materiality" notion is expressed, in part, in somewhat complex statutory language which states that a contract cannot be assigned if, under "applicable non−bankruptcy law" the non−debtor party would be "excused" from accepting performance from, or rendering performance to, an assignee of the debtor. This fundamental test is found in section 365(c) which states as follows:

a. The trustee may not assume or assign an 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 from accepting performance from 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...

The need for such a statutory limit on assignability may be readily understood in the hypothetical example of whether a law partner may "assign" a partnership interest or a rock star could assign a contract to perform at Madison Square Garden. The instinctive and legally correct answer is that the counter−party (e.g., the non−debtor) cannot be compelled to accept a new law partner, or a new concert performer in place of the one with whom he or she contracted. That is, such contracts cannot be assigned because the performance by the debtor itself is highly material to the non−debtor. Thus, in the area of personal services contracts, and other similar contexts, the bankruptcy norm is non−assignability, as it is under state law.

The attempt to carve out a modest exception in section 365(c) so as to exclude from free assignment those contracts where the performance by the debtor itself is unique and material, has led to inconsistent, contradictory and highly criticized results that have impaired the ability of high technology companies to utilize chapter 11. First, there is strong disagreement as to how to reconcile the notion of free assignability, embraced in section 365(f) with the notion of limited assignability found in section 365(c). Section 365(f) states that a contract may be assigned "notwithstanding. . . applicable law, that prohibits. . . assignment." Thus, if section 365(f) were to control, then even federal common law would be "applicable law" that would not be enforced.

Several courts have observed that if section 365(f) is read literally, and if it applies except when section 365(c) applies, then section 365(f) has no application. [60] Some courts concede that the conflict between the two sections is irreconcilable. [61] Other courts have tried to craft fanciful interpretations. But as District Court Judge Motz observed in *In re Antonelli*, no one can say "with any sense of intellectual honesty" that there is any "principled conclusion" that one can draw from the efforts to reconcile these two Code sections. [62]

As is discussed below in Part III, courts have generally tended to place patent and copyright assignments into the area embraced by section 365(c) on the grounds, among others, that such contracts have traditionally been viewed as contracts that are non−delegable. This decision has been made without reference to whether the assignment to a third party is, or is not, material, and in this most basic sense, the current interpretations serve no useful function, and require change. A proposed change is suggested in Part III, which looks to materiality and borrows notions from the Restatement (Second) of Contracts for when an assignment would be a material breach which would excuse performance.

This threshold decision to apply section 365(c) and to by−pass section 365(f) has been coupled with an equally fatal proposition for the high−technology companies. Here we come to an area of remarkable textual dispute and confusion. Read literally, section 365(c) states that a trustee may not assume "or" assign an executory contract if "applicable law" restricts assignment. [63] According to some courts, section 365(c) means that if a debtor cannot assign an executory contract then it cannot even assume it. If a debtor cannot "assume" a technology license, then the patent owner arguably may argue that the license terminates as a matter of law under standard "ipso facto" clauses which make bankruptcy an event of default. This interpretation of section 365(c) is known as the "hypothetical test" and is accepted by a majority of the Circuit Courts. [64] The other test, known as the "actual test," means that a debtor can assume its own pre−petition contracts, even if non−assignable, as long as the debtor does not intend to actually assign the contract to a third party. [65] The actual test is said to be followed by a majority of bankruptcy courts. [66] That the bankruptcy courts are essentially disregarding the majority of the Circuit Court decisions signifies a serious level of dysfunction and breakdown of predictability within the bankruptcy system. [67]

The Stage Is Set

These normative rules in both intellectual property and bankruptcy law give rise to the key issues over which high technology cases have stumbled and often fallen. The issue of assumption and assignment is at the heart of the collision between bankruptcy and patent law. The federal common law appears to bar assignment. A patent or copyright monopoly depends for its very lifeblood on limiting and preventing assignment, according to conventional theory. Bankruptcy law depends upon free assignability as a vital aspect of reorganization. How these competing tensions play out when a technology debtor files for bankruptcy and must seek to assume and assign its principal licensing agreements is discussed in Part II, below.

Part II: The Judicial Battleground

The tensions between bankruptcy and intellectual property law remained dormant and obscured until the crash of the dot.com and high technology sector. With the recent economic crisis, court decisions have begun to evidence a pattern that has made reorganization of technology companies highly problematic. In summary, the major reported decisions to date stand for the following: (a) a technology license is viewed as a "mere license" and not an assignment; [68] (b) a non−exclusive technology license will be classified as an executory contract; [69] (c) when executory contract law principles are applied, the non−exclusive, technology license will be found to be non−assignable based on the application of federal common law; [70] (d) in some, but not all jurisdictions, the rule against assignment will also mean that the technology company cannot "assume" the technology license under the "hypothetical" test, [71] and (e) as a result of the above, the ability of high technology companies to reorganize is highly compromised and problematical.

Assignment vs. Mere License

The threshold issue as to whether the debtor acquired the technology from the owner in an assignment of the "whole patent" (or an exclusive part of the whole) or whether the debtor holds the technology as a mere licensee may be critical. If a court views the transfer of the patented technology as an assignment of the whole, and not as a mere license, then the contract will be considered "non−executory" because, conceptually, the transfer has been completed. In such a case, all of the impediments to assumption (outlined below) may be avoided. Ironically, a finding that an agreement is non−executory might also strip from the debtor the special rights to assign an agreement under section 365(f) notwithstanding an anti−assignment clause in the agreement.

The most prominent bankruptcy case that has discussed whether a transfer of patent rights was an assignment or a license is *In re Access Beyond Technologies, Inc.* [72] In *Access Beyond,* Hayes Microcomputer Products, Inc. ("Hayes"), the debtor, was the transferee of rights to use certain patented assets which it had acquired under a cross license agreement with Megahertz. [73] When Hayes sought to liquidate its assets and pay creditors it conducted an auction sale of all of its assets, which included the license agreements, for which it was offered $4.0 million. [74] The license agreement was a cross−license, meaning that both Hayes, the licensor, and the debtor had each agreed to permit the other to use some of its patented technology. In addition, the patent license was irrevocable, and royalty free, thus at least creating a plausible argument that the transfer was a completed assignment and not a mere license. [75] The license agreement, however, was non−exclusive. [76]

Because Hayes and its creditors needed to sell the license agreement in order to pay creditors, Hayes argued that the underlying license agreement was actually a "sale" (or assignment) to it of the patented technology and not a mere license. [77] Because it was a sale, Hayes argued, it could freely transfer and assign the valuable right. [78]

The Bankruptcy Court in *Access Beyond* ruled against Hayes and held that the patent license was not a sale, but a mere license. [79] Judge Walrath described the necessary elements in order to make a transfer of patented technology a completed assignment or sale, stating as follows:

An agreement is a sale of patent rights only if it conveys: (1) the whole patent, comprising the exclusive right to make, use and sell the invention; (2) an undivided share of that exclusive right; (3) an exclusive right to practice the invention within a specified territory…. Unless the writing conveys some or all of the right to exclude others from practicing the invention, it will not convey an interest in the patent, but a mere license. [80]

Applying this test, the court in *Access Beyond* held that the license was "by its very terms" a non−exclusive right to make, use or sell the patented technology. Thus, the license agreement did not "convey any part of the patent monopoly or the underlying patents" and was not a sale, but a license. The court also held that as a matter of law *any* non exclusive grant of the right to make, use, or sell a patented invention "by its very terms, is not an assignment, but a naked license." [81] The breadth of this ruling, and its author, make *Access Beyond* a case of major import likely to be followed by other courts. [82]

Under current law, the ruling in *Access Beyond* serves as the gateway to the rules that limit assumption and assignment, and thus might be viewed as an impediment to reorganization. It is also fair to say that the same ruling should be the foundation for protecting high technology debtors by ensuring that licenses are eligible for treatment as executory contracts.

<u>Non−Exclusive Patent License as Executory Contract</u>

Once a court determines that the transfer is not a sale, but a license, it is but a short step to then conclude that a license is an executory contract. Conceptually, the issue is almost identical—that is, whether or not the transfer is complete or whether duties remain due and owing on both sides. Historically, courts have found license agreements to be executory contracts. The same pattern has continued in the high technology cases. Judge Walrath in *Access Beyond* discussed the issue of executory contracts as separate and discrete from the assignment/license issue, and then held that the license agreement was an "executory contract" because it satisfied the classic test under bankruptcy law known as the "Countryman" test. [83] Under the Countryman test, a pre−bankruptcy contract is considered to be executory if there is a material duty owing and still unfulfilled by both parties to one another. [84] In the context of a cross license agreement, Judge Walrath found that such material duties were still due and owing. While the licensor might be viewed as having completed its conveyance, the court found an incomplete, material duty, namely the duty to refrain from suing the licensee for infringement. [85] The court added that "[t]his performance is material since the licensor's promise to refrain from suing the licensee for infringement is the *raison d'être* for a patent license." [86]

A similar decision from the Ninth Circuit supports the view of Judge Walrath. In *Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC. Inc.),* [87] the court found that the licensees' duty to mark all products made under the license with the proper statutory patent notice was a material performance still due by the licensee. [88]

These two cases together make it clear that even a minimal "duty" remaining by each party will be enough to make a license executory for bankruptcy law purposes. It would seem fair to conclude, for now, that under the prevailing legal theory of what constitutes an executory contract, most courts are likely to conclude that patent and copyright transfers are (a) not assignments but licenses and (B) that license agreements are executory contracts, and (c) thus governed by the rules of assignment and assumption under section 365.

Nonassignability of Non−Exclusive Licenses

Once a bankruptcy court determines that the patent or copyright license is an executory contract governed by section 365, then the next critical issue for the technology company is whether it will be able to assume the license and/or to assign and sell the license in order to pay its creditors and fund its reorganizations. If it cannot, then the technology company will be severely hampered in its efforts to utilize chapter 11 to its full potential.

Perhaps the earliest reported bankruptcy decision to rule that the federal common law of non−assignability would foreclose the transfer of a patent license in the context of a bankruptcy case is *In re Alltech Plastics, Inc.*, [89] In *Alltech*, the chapter 7 debtor had been in the business of manufacturing reinforced plastic containers by using a patented process known as "Airopak." The Debtor had acquired its rights under a non−exclusive license. [90]

When the debtor sought to sell its interest, the patent owner asserted that under the federal common law an assignment was prohibited without its consent that section 365(c) governed, and precluded assumption or assignment, since the contract was non−delegable. [91] The debtor urged the court, instead, to apply the more liberal rule of assignment found in section 365(f), which holds that an anti−assignment clause in "applicable law" is not enforceable.

The court held that the federal common law rule of non−assignability was enforceable under section 365(c), regardless of the mandate of section 365(f) to disregard applicable law which restricts assignment, saying "the rights of the patent owner to license the use of his invention is a creature of federal common law as is the right of the licensee to have the license construed." [92] Relying on the line of cases from Troy Iron & Nail v. Corning, supra, through *Unarco*, the bankruptcy court concluded:

Consequently, although their nonassignment is not statutorily mandated, the century old common law classification of patent licenses appears to place them within the realm of the types of contracts traditionally associated with section 365(c). As such, in accordance with the interpretation of sections 365(c) and (f) discussed above, the Trustee in this instance does not have the power to assign the patent license absent consent from the licensor. . . [93]

In *Alltech* the Court made two key legal rulings which foreclose chapter 11 to technology companies. First, it held that federal common law is the applicable law under section 365(c), and, secondly, it held that section 365(c) should control and not section 365(f). [94] The court reached this later conclusion even though it recognized that section 365(c) presumably only applied to contracts "dependent upon a special relationship, special knowledge or unique skill. . ." [95] The Court did not explain what was unique or special about a license arrangement for packaging materials, or why the identity of the debtor's assignee would be material.

The earliest Circuit Court decision to consider carefully whether the federal common law of non−assignability should pertain in the context of a bankruptcy case was *Everex Systems, Inc. v. Cadtrak Corporation (In re CFLC, Inc)*, decided in 1996. [96] The patent in question concerned a non−exclusive license to use certain computer graphics technology owned by Cadtrak that the debtor used in its business of manufacturing personal computers. [97] When the Debtor sought to effectuate a sale of substantially all of its assets, Cadtrak objected on the grounds that the patent license was not assignable under federal common law. [98]

In what may be viewed as a lukewarm endorsement of the view that federal common law applied, the Ninth Circuit began with the fundamental proposition that "there is no federal general common law," which is the heart and soul of *Erie v. Tompkins*. [99] Further, the Ninth Circuit agreed that the statutes governing patents are basically silent on the issues of licenses and that "the construction of a patent license is generally a matter of state contract law." [100] Finally, the court acknowledged that "most questions with respect to the construction of patent licenses are governed by state law." [101] Nevertheless, the Ninth Circuit was concerned that the state law notion of "free assignability" would undermine the reward that encourages invention. [102]

The same result of non−assignability has been reached with respect to copyright licenses. Thus, in *In re Patient Education Media, Inc*, [103] the New York bankruptcy court applied the conventional rules as to both copyright law and bankruptcy law. In *Patient Education*, the debtor was a producer and distributor of educational materials for various medical conditions. [104] Part of its assets consisted of videotapes pertaining to specific diseases. [105] The videotapes included certain still photography images that the debtor had acquired by virtue of a non−exclusive copyright license from a photographer. [106]

When the debtor filed for bankruptcy it sought to sell its rights concerning the videotapes. [107] The photographer−licensor objected and argued that under long standing copyright theory, a copyright was "personal," and not an assignable property right. [108] The court agreed. It first employed the classic distinction between non−exclusive and exclusive licenses, finding that the former was not a completed sale. [109] This led the court to conclude that a non−exclusive copyright license is typically an executory contract and hence governed by section 365. Finally, the court then looked to the analogous cases applying similar patent doctrines, and held that the videotapes could not be sold, because such a sale would be an assignment of a copyright license without the consent of the licensor.

In reaching this result, the court recognized the clear clash between bankruptcy policy and intellectual property law:

Although the assignment of the Katzenstein license will maximize the assets available to creditors, this goal must give way to the countervailing considerations expressed in section 365(c) According, this court holds that PEMI cannot assign its non−exclusive license to Glaxco without Katzenstein's consent. [110]

Neither Assumption Nor Assignment Permitted: The Catapult Dragon

Once the Ninth Circuit had determined that federal common law applied, and that a patent license could not be assigned, it was only a short leap to the conclusion that neither can a license be assumed. To reach this draconian conclusion, a bankruptcy court had to apply the highly controversial "hypothetical test" under section 365(c). This result was reached only three years later by a different panel of the Ninth Circuit in what may well be the most notorious technology case in recent bankruptcy law, and which continues to hamper technology reorganizations, *In re Catapult*. [111]

Catapult Entertainment was a California corporation engaged in the business of creating an online gaming network for 16−bit console video games. [112] Catapult relied on two license agreements for the non−exclusive use of patents and patent applications. [113] When Catapult filed for bankruptcy it wanted to assume the license agreements under section 365 so that it could continue to operate and utilize its licenses. [114]

The narrow question presented was whether a debtor could assume an executory contract even where it had no intention of assigning it under the hypothetical test. First, the court had to make a threshold determination as to whether a non−exclusive license was assignable. [115] In a short paragraph, the court disposed of a series of issues which it held "deserve no more than passing reference." [116] The issue of whether federal patent law should be applied did not provoke any debate: "our precedents make it clear that federal patent law constitutes 'applicable law' within the meaning of section 365(c), and that nonexclusive patent licenses are 'personal and assignable only with the consent of the licensor,'" [117] citing to *In re CFLC, Inc*. [118]

The court in *Catapult* held that the patent license could not be assumed by the debtor even though there was not to be an assignment. [119] As noted earlier, section 365(c) contains the highly debated language which states that a debtor may not "assume *or* assign" an executory contract if the contract is one where the non−debtor cannot be compelled to accept performance from another party. [120] Many courts view this language as textual error, with the correct meaning being that a debtor cannot "assume *and* assign." [121] The Ninth Circuit however applied the "hypothetical test" under section 365, which the court described as follows:

The plain language of section 365 (c)(1) links nonassignability under applicable law together with a prohibition on assumption in bankruptcy. . . In other words, the statute by its terms bars a debtor in possession from assuming an executory contract without the non−debtor's consent where applicable law precludes assignment of the contract to a third party. The literal language of section 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 had no intention of assigning the contract in question to any such third party. [122]

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made three critical rulings that arguably foreclose chapter 11 from a technology company seeking to rely on its intellectual property licenses. First, it held that section 365(c) controls in lieu of section 365(f). Second, it held that federal common law precludes assignment without consent, and that this common law principle is the "applicable non bankruptcy law" under section 365(c). Third, it held that bankruptcy law precludes assumption even where an assignment is not intended. This tri−parte conceptual framework closes tight the door to many potential technology debtors at least without the consent of the patent owner. For this reason, *Catapult* will probably remain the most fiercely debated technology case for the next several years.

Institut Pasteur: Permitting Assumption of Technology Licenses

While *Catapult* has gained widespread notoriety for the proposition that a debtor can neither assume nor assign a technology license or copyright, the First Circuit expressly rejected the "hypothetical test," and with, much of the spirit and direction of Catapult. [123] The First Circuit also found a basis to permit something close to an "assignment" of the patent license. [124]

Institut Pasteur was a nonprofit French foundation engaged in AIDS−related research and development, and was the owner of various patented procedures for diagnosing HIV Virus Type 2. [125] Pasteur Sanofi Diagnostics held the exclusive right to use and sublicense Institut Pasteur's patents. Cambridge Biotech Corporation ("CBC") entered into a mutual cross−license agreement whereby it acquired the right to incorporate Pasteur's HIV diagnostic procedures into any diagnostic kits sold by CBC in the United States and in other countries. [126] When CBC later filed for bankruptcy, its plan of reorganization called for CBC to "assume" the patent licenses and continue to operate its retroviral diagnostic divisions utilizing Pasteur's patented HIV2 procedures. [127] The plan of reorganization called for the sale of all of the stock of CBC to be sold to bioMerieux, which was a direct competitor of Pasteur. [128]

Pasteur objected to the plan of reorganization, arguing that under the hypothetical test, a debtor cannot assume and utilize a license agreement itself, even if it does not intend to assign the license to a third party. [129] The First Circuit expressly rejected the hypothetical test and indicated it would adopt instead a case−by−case analysis or the "actual test." [130] The focus of the actual test is whether the third party, in this case Pasteur, was actually being "forced to accept performance under its executory contract from someone other than the debtor party with whom it originally contracted." [131] According to the First Circuit, a bankruptcy court should focus on the performance actually to be rendered by the debtor to ensure that the non−debtor will receive the full benefit of the bargain. If so, then assumption should be permitted. [132]

Second, the court permitted the stock sale, which in essence effectuated an assignment. [133] Pasteur argued that even under this actual test, there was nevertheless a de facto assignment. [134] After all, CBC was selling all of its stock to a direct competitor of Pasteur. The First Circuit saw it differently. It noted that the cross license agreements expressly permitted the use of the license by an "affiliate of the debtor." [135] Thus, Pasteur should have foreseen that the CBC might undergo changes of stock ownership. Despite the foreseeability of such a change, Pasteur did not restrict changes in beneficial ownership in its license agreement, and hence could not ask the bankruptcy court to restrict it.

This liberal result may be read as endorsing the notion that free assignability is the norm. In that regard, it may also signal a more vigorous effort to apply notions of "waiver" or to find implied consent to assignment by future courts. Further, the First Circuit's rejection of the hypothetical test and the existence of a circuit split at least permits counsel to make reasoned arguments in favor of permitting both assumption and assignment of technology licenses. *Institut Pasteur* would thus permit a debtor to spin off all of its non−technology assets to a new company, cancel the stock of the old company and issue new stock to the technology purchaser. Such a strategy would presumably work unless, perhaps, there was a clause in the license which prohibited a change in control. [136]

Catapult

and *Institut Pasteur* represent the polar extremes of reaction to trying to fit intellectual property concepts into bankruptcy law. These cases have generated well−founded anxiety as to whether high technology companies can successfully reorganize. This state of the law will invariably lead to many challenges to the existing doctrines. This current balance in favor of technology owners may change if Congress passes certain technical amendments to section

365. Without congressional change, technology debtors will seek out and present arguments that may change the face of both bankruptcy law and settled notions of intellectual property law. Some of those challenges and the rationale for each are discussed in Part III, below.

Part III: Challenges to the Current Barriers to High Technology Bankruptcies

The current state of the law, with an almost *per se* rule against assumption and assignment of technology licenses, may prove to be unsustainable. High technology debtors are likely to challenge existing precedent, either on the intellectual property side or the bankruptcy side. The issues which the courts are likely to confront may well include the following: (a) are technology licenses truly executory; (b) is there any principled reason for applying section 365(c) in lieu of section 365(f); (c) even if section 365(c) does pertain, should the bankruptcy courts look to federal common law as the decisional law; (d) even if formal assignments are not permitted, will de facto assignments be permitted through a change in control or sale of stock; and (e) even if technology licenses cannot be assigned, should the courts continue to apply the hypothetical test to bar assumption? Each of these issues stands alone, and yet together have created major barriers to reorganization. Whether any of these barriers are necessary to protect the legitimate and important rights of patent owners is discussed below.

Are Licenses Truly Executory Contracts?

A starting point for avoiding some of the harsh consequences of section 365 might be to argue that a non−exclusive technology license does not satisfy the definition of an executory contract because it is a completed, although partial conveyance. Such an argument was made in *CFLC*, but as the court there noted, a finding that the license was not executory would have made it even harder for the debtor to succeed. [137]

As a result of the "path breaking" scholarship of Professors Michael Andrew and Jay Westbrook, there are various alternate definitions of what constitutes an executory contract. [138] One of these alternative views defines a contract as executory only in terms of results: "The key. . . is to work backwards, preceding from an examination of the purposes of what rejection is expected to accomplish. If those objectives have already been accomplished or if they can not be accomplished through rejection, then the contract is not executory within the meaning of the Bankruptcy Act." [139] It seems that by "working backwards" an argument might be fashioned that non−exclusive licenses are not executory, since a breach or rejection achieves nothing. [140] Perhaps the effort to escape from the rules of executory contracts might solve the problem as to whether the debtor can itself "assume" the executory contract. [141]

On reflection, however, trying to get out from under section 365 may be exactly the wrong strategy. The core problem is not with the definition of executory but with the issue of non−assignability. Because section 365 has special *benefits* which promote free assignability, the better strategy is to accept the notion that non−exclusive licenses are executory contracts, and then to argue that such contracts are entitled to the special legal protections which enhance, not limit, assignability. Thus, it is the thesis of this Article that the correct deployment and interpretation of relatively accepted principles under section 365 can provide the proper balance between owners and licensees.

Direct Challenges to the Federal Rule of Non−Assignability of Patent Licenses

If it is accepted that a non−exclusive technology license is almost always going to be viewed as an executory contract, then the fundamental challenge to the current barriers to assumption and assignment must begin with the core notion that there is a body of federal common law that restricts or limits assignment, and that this body of common law should be applied in a bankruptcy context. These issues are separate and distinct and both are at least open to serious debate.

The most difficult challenge requires a re−examination of the notion that federal common law should be utilized by the bankruptcy courts as the decisional law under the doctrine of *Erie*, and to argue instead that the decisional law should be state law. The leading case urging exactly this position is *Farmland Irrigation Co. v. Dopplmaier*. [142] In *Dopplmaier*, Justice Traynor concluded that under *Erie*, state law should govern the assignment of patent licenses.

Three reasons justified rejection of the use of federal common law, according to Justice Traynor. First, the doctrinal growth of the notion that all patent licenses are not assignable, without express consent, arose from *Hapgood v. Hewitt* [143] *and Troy Iron & Nail Factory v. Corning*, both of which were decided before *Erie*, and thus did not address the issue of whether state or federal law should apply. Further, "[w]e can find no policy underlying the federal patent statutes that requires a uniform federal rule of construction of license contracts to determine their assignability." [144]

Second, Justice Traynor observed that the early cases were based on fact patterns where the underlying license agreement was based on the personal skill of the licensee. [145] Many patent licenses are not truly based on personal services, but rather are more in the nature of a "commodity," and hence the decisions do not reflect the underlying commercial reality of the license agreements. Third, the federal common law rule undercuts important state rules which favor free assignability.

Justice Traynor proposed a principle that looked to state law as the decisional law, and yet which fits comfortably within the framework of both section 365 and existing bankruptcy precedent. He stated as follows:

The statutes in this state clearly manifest a policy in favor of free assignability of all types of property, including rights under contracts. . . The terms and purpose of a contract may show, however, that it was intended to be nonassignable. Thus, the duties imposed upon one party may be of such a personal nature that their performance by someone would in effect deprive the other party of that for which he bargained. The duties in such a situation cannot be delegated. Rights likewise cannot be assigned if the assignment would materially impair the nonassigning party's chance of obtaining the performance he expected. [146]

Justice Traynor's views in *Dopplmaier* have been received favorably by various commentators. One commentator has observed that a proper economic analysis would result in courts not applying federal common law: "Instead, the courts should have held that federal patent policy does not preempt state laws that allow patent license assignment. If the courts had held instead that federal patent policy does not preempt state laws that allow license assignment, they would have also allowed the parties to maximize the value of the licenses to themselves and to society." [147] Another writes as follows:

In fact, it appears that no exception [to the *Erie* rule] exists which warrants application of a federal rule of decision to issues of patent license transferability. Clearly, Congress has not give the courts the power to develop substantive law on the issue. In addition, it is not clear that application of a federal rule is necessary to protect a federal interest. [148]

Conversely, Justice Traynor's views have not been followed by the few courts which have addressed the specific issue. For example, in *In Verson Corporation v. Verson International Group PLC,* [149] the district court stated, "We seriously doubt whether these decisions survive the later developed line of cases refusing to imply a right of assignability of patent licenses." [150] Likewise, the First Circuit in *CFLC* considered Justice Traynor's views, and found that he had raised "not insignificant questions about the . . . continued vitality of the nineteenth century Supreme Court decisions which are cited for the origins of the rule." [151]

What then prompted the Ninth Circuit to conclude that federal common law should pertain in the context of a bankruptcy case? The thin margin was only a perceived "federal policy":

Allowing free assignability—or more accurately, allowing states to allow free assignability of non exclusive patent licenses would undermine the reward that encourages 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. [152]

The Ninth Circuit's reasons for not applying state law show that the rationale is not strong. In *CFLC*, the Court expressed the concern that the application of state law might deprive the patent holder of one of the primary benefits of its invention, which is the patent monopoly. Thus, in its view, absent federal common law, the law would revert to a state law notion of "free assignability."

This characterization of state law as leading to "free assignability" is incorrect and not consistent with the principles suggested by Justice Traynor, nor the ideal model for reconciling patent principles with bankruptcy principles. As Justice Traynor pointed out, the application of the state law of assignments might well require that the court look to the nature of the contract and endeavor to determine whether the underlying agreement was one where the identity of the parties was actually critical to maintaining the benefit of the bargain. [153] The real difference between applying federal common law and applying state law is between a per se rule, and a fact specific rule. And it is exactly the uncompromising view of federal common law that has led to the difficulties discussed above.

Rethinking the Relationship Between Section 365(c) versus 365(f)

Independently, but related to, the issue of whether there is an applicable body of federal common law, is the threshold question of whether a fair, textual reading of the Code mandates that bankruptcy courts apply such a body of law. As noted above, section 365(f) states that a contract may be assigned notwithstanding "applicable non bankruptcy law." [154] Federal common law is, as noted, "applicable non bankruptcy law." On its face, section 365(f) would override the federal common law rule, regardless of its content.

Section 365(f), however, contains the reference back to section 365(c), and states that, "except as provided in subsection (c) of this section." The quest for a coherent and textually sound understanding as to what this exception means, and when it applies has led to confused, confusing and muddled decisions. Section 365(c) states that a debtor may not assume or assign an executory contract if the non−debtor party would be "excused" under applicable non bankruptcy law from accepting performance from, or rendering performance to, a party other than the debtor or the debtor in possession.

Which of these two sections controls, and why? Judge Motz suggested in *Antonelli* there is no intellectually honest, or principled basis for deciding which of the two inconsistent sections truly governs in any specific context. [155] The law is hardly settled as to how the "exception" language of section 365(f) may be harmonized with section 365(c). [156] The case law is replete with decisions trying to reconcile section 365(f) with section 365(c). The reconciliations are fanciful and creative. One recognized approach views section 365(f) as only applying where the law as a general matter prohibits, restricts or conditions the assignment of executory contracts, while section 365(c) supposedly applies where the identity of the contracting party is material to the agreement. [157] Another approach tries to define the "category" or cases which automatically require application of section 365(c) as being those which call for "personal services or the performance of nondelegable duties." [158]

Is there truly a justifiable and textually sound difference between a non bankruptcy law which "restricts" assignment (section 365(f)) and a non bankruptcy law which "excuses performance," due to or from an assignee? It is the thesis of this Article that there is a more plausible, and more textually consistent notion that assists in determining the relationship between the two sections. If one were to search for textual clues, then perhaps the notion of "excusing" a party from performance can be borrowed from conventional contract law. The Restatement (Second) of Contracts, Section 237, has long provided the basic notion that a non−breaching party to a contract may be excused from rendering performance to the other party if there is a material and substantial breach. [159] That is, the notion of being "excused" from performance is a more exceptional form of common law relief, and is only available where the breach can be shown to be material and substantial. For breaches which are immaterial or insubstantial the only remedy is damages.

The same notion fits well into the concerns over assignment, and whether an assignment to a third party is truly material or substantial. Under normal contract principles, if a party assigned a contract, despite a clause which prohibited assignment, then the other party would be excused from performance, *only* if the breach was material; if it was immaterial, the party might be entitled to damages, although in such a case it would seem that monetary damages would be unlikely. [160]

This notion fits well into the text and interpretations of section 365. Section 365(f) begins with the straightforward thought that a written provision in a contract which prohibits assignment may be ignored, and the contract assigned except as provided in subsection (c). Subsection (c) does not describe a category of contracts, nor refer to specific or general statutes, as some courts have suggested. Instead, subsection (c) should apply only where the non breaching party could establish that the assignment would result in a material breach of contract that would excuse its performance. Because the true test of section 365(c) looks to *performance* of the contract as its test, Section 365(c) does not look to contract language for its test, and applies the "excuse" test "whether or not such contract. . . restricts assignment." This is because the test in section 365(c), may be read as applying a common law test of materiality, and has borrowed conventional concepts from the law of contracts.

The focus on "materiality" and "excuse from performance" leads to a useful and flexible fact specific inquiry. Some courts have noted that the "intention" of section 365(c) was to protect the non−debtor party from an assignment where the identity of the party providing performance is material. The same thought pertains.

When this notion is applied to the law of patent and copyright assignments, the result is not a blanket rule, but a case−by−case analysis. We note only this. It seems almost beyond debate that rock stars cannot assign their contracts, inside or outside of bankruptcy because the identity of the performer is material. That a patent license that pertains to packing material cannot be assigned seems far less intrinsic and material. That the Code has failed to express a coherent rule that applies to both is not surprising.

The Correct Balance: Application of Section 365(f) and State Law as the Decisional Law

What, then, is the judicial outcome in any given case if section 365(f) and state law are used as the decisional law? Does rampant free assignability doom patent and copyright protection? Or will the courts shape and develop a coherent and fair approach, that is free from the dysfunction and muddled thinking which has marred the application of section 365 thus far? It is suggested that Justice Traynor's approach of looking to the materiality of the assignment would become the norm, and indeed, is the correct norm.

If the bankruptcy courts were to determine that the federal common law is not the applicable law under section 365(c), then section 365(f) would become the controlling Code sections for issues dealing with assignability. In such a case, the assignment of a patent would require a factual determination under 365(f)(2)(B) that there would be "adequate assurance of future performance." The developed case law under this subsection, already requires that a court examine the basic benefit of the bargain. In the case of a patent or copyright, the core examination might be to consider whether the assignment truly involved personal, non−delegable rights, or whether the assignment was more in the nature of a commodity.

This very model has been in existence, and worked quite well under section 365 in the context of shopping center leases, an area where the number of contracts being routinely assigned by bankruptcy courts is presumably the greatest. [161] Under normal state law rules, a clause in a lease restricting assignment is fully enforceable; such clauses protect the landlord from a host of evils, including undoing a carefully planned tenant mix and exclusivity provisions that are vital to a shopping center's viability. Nevertheless, the courts have been able to chart a course between the goals of protecting a legitimate property right and facilitating reorganization by requiring a firm justification for any anti−assignment rights, and in general, by not enforcing them.

The valid concerns of a patent owner are not so different from those of a landlord seeking to protect its bargain and economic stake. In the patent and copyright area, assignability poses a recognizable and valid threat just as it does in the case of a shopping center. Nevertheless, through the application of standards of adequate assurance, the courts have been able to find a way to accommodate the interests of all parties.

In sum, the use of section 365(f) is an existing, workable model that promotes balance and leads to potentially more just and equitable results. The disinclination to use section 365(c) could be well justified by using the notion of "excused" from performance as embodied in the Restatement (Second) of Contracts. Together, these concepts would take the courts away from the federal common law and its dogmatic and inflexible approach.

De Facto Assignments and the Successor Doctrine:

Even if Justice Traynor's views are not fully accepted by a bankruptcy court, existing precedent supports the notion that even under the federal common law of assignment, there is a historically recognized exception, namely the "succession doctrine." The case often cited as the seminal case in this area is *Lightner v. Boston & Albany Railroad Co.,* [162] wherein two railroad companies holding licenses merged to form a single corporation. The court held that the corporation was the successor of the licensees and not an assignee. The Supreme Court expressly recognized the successor doctrine in *Lane & Bodley Co. v. Locke*. [163]

A result similar in spirit was sanctioned in *Institut Pasteur*, even in the face of federal common law. The debtor did not actually "assign" the patent license, but rather, sold all of the stock of the holder of the license to a direct competitor of the licensor. The First Circuit permitted this on the grounds that the identity of a corporation must be respected, and the change in stock ownership was not a transfer of the assets of the corporation. The Court stated that CBC's separate legal identity and its ownership of the patent licenses "survive without interruption notwithstanding repeated and even drastic changes in its ownership." [164]

Justice Traynor, in *Dopplemaier* noted that a stock sale would not be prohibited by the federal common law rule against assignability. [165] Further, he held that the doctrine of non−assignability under federal law had always recognized the "exception" against assignment which occurs "when the transferee succeeds to the entire business of the licensee, and assumes all of its assets and liabilities." [166]

Nevertheless, it is not clear whether other courts will permit a stock sale as a way around the non−assignability of patent licenses. In *Access Beyond*, Judge Walrath, in dicta, noted that this issue had been raised, and without much elaboration, dismissed the debtor's argument that the sale of stock could be part of a plan of reorganization stating "we do not see how this can be accomplished." [167]

It is unclear, as well, whether a merger would be viewed the same as a stock sale. The First Circuit, in *Institut Pasteur*, appeared to distinguish a stock sale from a merger, however. There is also recognized authority for the view that a merger effects a transfer of a patent license as a matter of law, and cannot be effectuated without the consent of the assignor. [168]

The use of sale of stock or of a merger as a means of effectuating a transfer of technology has not been thoroughly litigated, and thus there is little current, bankruptcy precedent on the subject. For now, the recognized exception to the federal common law might well permit a plan of reorganization to distribute stock to creditors in exchange for debt, and to have the new reorganized debtor still retain the license. Other similar structures may also work. While the successor exception has not received wide spread attention in modern bankruptcy cases, it may well prove to be a fertile area for successful reorganizations.

<u>Permitting Assumption Even If Assignment is Barred: Challenging the Hypothetical Test</u>

The above discussion has focused on concerns over assignment of patent and copyright licenses. The more draconian concern is whether the inability to assign an agreement, must also mean that a debtor cannot assume it. As noted, the notion that non−assumability is directly linked to non−assignability, is the teaching of both *Institut Pasteur* and long established precedent under in *In re West Electronics*. [169]

Accordingly, the high technology debtor may seek to challenge to the continued viability of the hypothetical test. The hypothetical test is still followed in many circuits, including the Third Circuit which currently hears and determines the vast majority of the corporate, chapter 11 bankruptcy cases. [170]

It is not the purpose of this paper to outline the various cases that have challenged or supported the hypothetical test. What is significant from a strategic stand point is that there is a well recognized split among the circuit courts over the hypothetical test versus the actual test. In this context, a good faith argument can be made in almost any circuit that the rule against assumption, based on the language of section 365(c) is wrong and that the issue is now ripe for appeal to the U.S. Supreme Court.

It is possible that the hypothetical test will die in Congress. In the Bankruptcy Reform Act of 1999, Congress considered making a "technical change" to section 365. [171] This change would have added a provision that in a case in which a debtor is a corporation or a debtor in possession, then such a debtor "may assume an executory contract or unexpired lease of the debtor, whether or not the contract of lease prohibits or restricts assignment of rights or delegation of duties." This amendment, if passed, would de−link non−assignment to non−assumability. This would mean that a debtor could, at a minimum, assume a patent license, and then continue to utilize the patent license as a debtor. However, more recent versions of the proposed legislation do not contain the proposed changes. [172]

The significance of an amendment, if made, could be profound. The hypothetical test has been used as grounds for patent owners to seek relief from the automatic stay, for cause, under section 362(d)(1), to terminate the license on the grounds that the debtor cannot assume it. [173] Some courts have questioned question whether such relief is appropriate. [174] Elimination or reversal of the hypothetical test would mean that the technology debtor can utilize the technology and possibly propose a plan that incorporates the "successor doctrine," or perhaps invoke the "ride through" strategy, as discussed below. [175]

Asset Sales: Using the Mootness Rule

Although the current case law restricts the assignment of a patent or copyright license without the consent of the non−debtor party, it is not uncommon in bankruptcy cases for debtors to sell all or substantially all of their assets, which would include the patent or copyright licenses. Because such motions do not always trigger formal or separate motions under section 365, a patent owner may be caught unaware that there is a pending sale of assets which may cause a transfer of a patent or copyright. When and if this happens, such owners may find that they have no recourse because of the mootness doctrine in section 363.

Section 363 permits a debtor to sell assets other than in the ordinary course of business. Section 365 permits a debtor to assign an asset. [176] There is an obvious overlap. The question has arisen as to whether an order permitting an assumption of a contract is also a sale under section 363. This question is critically important because section 363 contains a mootness provision:

(m) The reversal or modification on appeal of an authorization under subsections (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal unless such authorization and such sale or lese were stayed pending appeal.

While not free from controversy, recent case law holds that an assumption under section 365 is also controlled by section 363, and that the mootness doctrine applies. [177] This means that if an aggrieved patent owner seeks to appeal a decision, which permits assignment, and if the owner fails to obtain a stay pending appeal, the decision permitting the assignment will be rendered moot.

The "Ride Through" Strategy:

In those jurisdictions where the hypothetical test is not the law, or where the patent owner does not take an aggressive position, it has been suggested by other commentators that patent and copyright owners might want to utilize the "ride through" option. This strategy involves proposing a plan of reorganization in which the executory contract would merely "pass through the estate," and thus try to avoid the litigation triggered by a formal motion to assume or assign. [178]

One short answer to this strategy is that to some courts, the failure to assume a contract, through a formal motion, may well be fatal, and may leave the debtor with a post confirmation argument by the licensor that the contract was rejected during the bankruptcy case. Thus, Judge Walrath, in *Access Beyond* wrote as follows:

If the debtor does not assume an executory contract, it is deemed rejected. See e.g., James Wilson Associates, 965 F.2d at 169; Sea Harvest Corp. v. Riviera Land Co, 868 F.2d 1077, 1079 (9th Cir. 1989) (the statutory presumption of rejection, unless the debtor or trustee acts affirmatively to assume a lease, protects the estate from unexpected liability). [179]

Conclusion

The stakes in this debate are high on both sides. Key federal policies encouraging the rehabilitation of financially distressed companies is paramount. Federal policy on patent law may well be part of the engine that supports and sustains creative activity in the area of technology and elsewhere. While the final outcome is not yet clear, this area will continue to be one of enormous importance, and the tension between intellectual property law and bankruptcy law will become a major focus of debate and litigation for the next several years. We submit that a change to focus under section 365(f) and to adequate assurance of future performance is the correct middle ground which provides a fair and an appropriate balance between these equally important goals. Such a test protects the benefit of the bargain and permits reorganization to occur where assignment does not impair vital rights. Such a rule would seem to embrace the best of both bankruptcy law and intellectual property law.

FOOTNOTES:

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[2] See Hon. James R. Grube et al., Hi−Tech and Telecom in Financial Distress Roundtable, 8 Am. Bankr. Inst. L. Rev. 205, 253 (2000) (discussing several obstacles and issues confronting hi−tech and telecom companies in financial distress); John D. Penn, Dot.Bombs: The Internet's New Growth Sector, 2001 ABI JNL. LEXIS 110, at *1 (June 2001) (noting staggering costs of dot.com's going under); see also Francis G. Conrad, Dot.Coms in Bankruptcy Valuations Under Title 11 or www.snipehunt in the Dark.Noreorg/Noassets.Com, 9 Am. Bankr. Inst. L. Rev. 417, 419−20 (2001) (noting rising tide of dot.com bankruptcies). Back To Text

[3] John Cassy, Corporate America is Riding Out What Staff and Customers Really Think Through Official − and Unofficial Complaint Sites, The Guardian (London) April 13, 2001, at 20 (discussing rise of popular websites tracking and gossiping about the mass of dot coms in trouble.) Back To Text

[4] 11 U.S.C. § 101 (1994). Back To Text

[5] See Cinicola v. Scharffenberger, 248 F.3d 110, 220 (3d Cir. 2001) (stating "[g]enerally, the Bankruptcy Code . . . allows a trustee to assume and assign executory contracts regardless of applicable laws or contractual provisions restricting assignment"); L.R.S.C. Co. v. Rickel Home Centers, Inc. (In re Rickel Home Centers, Inc.), 209 F.3d 291, 299 (3d Cir. 2000) (stating "[t]he Code generally favors free assignability as means to maximize the value of the debtor's estate and, to that end, allows the trustee to assign notwithstanding a provision in the contract of lease, or applicable law, prohibiting, restricting, or conditioning assignment."); see also In re Howe, 78 B.R. 226, 230 (Bankr. D. S.D. 1987) (stating "[s]ection 365 reflects the clear Congressional policy favoring assumption and assignment of executory contracts and leases."). Back To Text

[6] See Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938) (holding Federal courts are bound to apply state substantive laws and federal procedural laws in federal courts sitting in diversity). Back To Text

[7] See generally U.S.C. titles 17 (copyrights), 35 (patents) and Chap. 22 (trademarks) of title 15 (Commerce & Trade) (1998); The American Heritage Dictionary, at 668 (2d College Ed., Houghton Mifflin Co., Boston 1991) (defining "intellectual" as "of or pertaining to the intellect.…"); Black's Law Dictionary 813 (7th ed. 1999) (defining "intellectual property" as "a category of intangible rights protecting commercially valuable products of the human intellect. The category comprises primarily trademark, copyright and patent rights, but also includes trade−secret rights, publicity rights, moral rights and rights against unfair competition.…"). Back To Text

[8] See 35 U.S.C. §§ 101−105 (1994). Back To Text

[9] See id. § 101 (providing prerequisites for obtaining patent); Graham v. John Deere Co., 383 U.S. 1, 5 (1966) (stating in order to promote science and useful art, U.S. Constitution authorizes grant of exclusive rights to their discoveries to inventors for limited times); James P. Marsh Corp. v. U.S. Gauge Co., 129 F.2d 161, 164 (7th Cir. 1942) (noting

invention is encouraged by patent system because it rewards inventor). Back To Text

[10] See 35 U.S.C. § 154(a)(1) (1994) (conferring right to holder of patent to exclude all others); Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135 (1969) (stating patentee may exclude all others from manufacturing, using, or selling his invention); In re Access Beyond Tech., Inc., 237 B.R. 32, 38 (Bankr. D. Del. 1999) (stating one of exclusive rights of patent holders is "to exclude all other persons from practicing the patented inventions during the effective period of the patent"). Back To Text

[11] See In re Access Beyond Tech., Inc., 237 B.R. at 38; see also 35 U.S.C. § 154 (1994) (providing for exclusivity); Zenith Radio Corp., 395 U.S. at 135 (comparing exclusivity of patent to monopoly); Waterman v. Mackenzie, 138 U.S. 252, 255 (1891) (calling patentee's rights monopoly); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (stating "[w]hen an inventor or person holding patent rights desires to license or relinquish any part of the patent monopoly, such person is utilizing the monopoly of rights intended by the framers of the Constitution and the legislation of Congress to reward invention and originality."). Back To Text

[12] 35 U.S.C. § 261 (1994). Back To Text

[13] Id.; see also Kardo Co. v. Adams, 231 F. 950, 971 (6th Cir. 1916) (stating patent title would "pass as completely by the written and recorded assignments as would real estate by deed."); Hewett v. Samsonite Corp., 32 Colo. App. 150, 156 (1973) (holding "[p]atents and rights in patents are incorporeal personal property" and are assignable "by an instrument in writing."). Back To Text

[14] See 35 U.S.C. § 261 (1994) (providing for assignment of patent); Moldo v. Matsco, Inc. (In re Cybernetic Serv.), 252 F.3d 1039, 1052 (9th Cir. 2001) (stating "[a] security interest in a patent that does not involve a transfer of the rights of ownership is a 'mere license' and not an 'assignment, grant or conveyance' within the meaning of 35 U.S.C. § 261"); Everex Sys. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 676 n.2 (9th Cir. 1996) (stating "[a]n assignment of a patent is a transfer of an ownership interest in the patent, while a license is an agreement allowing the licensee to use the patent but not transferring any ownership interest in the patent."). Back To Text

[15] See Waterman v. Mackenzie, 138 U.S. 252, 255 (1891). Back To Text

[16] See Carole A. Quinn and R. Scott Weide, Violation of the Erie Doctrine: Application of a Federal Common Law to Issues of Patent License Transferability, 32 Creighton L. Rev. 1121, 1123−24 (1999) [hereinafter Quinn & Weide]. See, e.g., Spindelfabrik Suessen−Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (stating "[a]s a threshold matter, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee."); U. S. v. Studiengesellschaft Kohle, m.b.H., 670 F.2d 1122, 1127 (D.C. Cir. 1981) (stating "[a] license is an agreement by the patentee, usually for consideration, not to sue the licensee of the patent for infringement of the patent."). Back To Text

[17] See Indep. Wireless Tel. Co. v. Radio Corp. of America, 269 U.S. 459, 462 (1926) (holding grant to exclusive licensee limited to use of patented invention for commercial radio purposes); Amgen, Inc. v. Chugai Pharm. Co., 808 F. Supp. 894, 899−900 (D. Mass. 1992) (stating "an exclusive license can be created by a grant of exclusivity based solely on geographic, time, or field−of−use limitations."); Pratt & Whitney Co. v. United States, 153 F. Supp. 409, 410 (Ct. Cl. 1957) (holding that grant to exclusive licensee limited to use with engines in aircraft and guided missiles). Back To Text

[18] See Waterman v. Mackenzie, 138 U.S. 252, 255 (1891) (stating "[a]ny assignment or transfer, short of [the whole patent, an undivided part or share, or the exclusive right under the patent within and throughout a specified part of the United States] is a mere license, giving the licensee no title in the patent, and no right to sue at law in his own name for an infringement."); Amgen, 808 F. Supp. at 900 (stating "it should be stressed that the test for exclusivity is not whether the license is exclusive as against the licensor, but rather whether the licensor has promised explicitly or implicitly not to grant any additional licenses to third parties."); see also id. at 899−900 (discussing principle that non−exclusive licensee has no standing to sue for infringement); Kalman v. Berlyn Corp., 914 F.2d 1473, 1481 (Fed. Cir. 1990) (stating "it is well settled that a non−exclusive licensee of a patent has no standing to sue for

infringement."). W. Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 120 (2d Cir. 1930) (stating "a license ... which reserves to the licensor, and to possible prior licensees, the privilege of practicing the invention, but contains an implied promise that the licensor will give no further license within the specified field of use, entitles the promisees to join with the licensor in an infringement suit."); 8 Donald S. Chisum, Chisum on Patents, § 21.03[2] [c] (1993) (discussing standing of exclusive licensee). Back To Text

[19] 17 U.S.C. § 106 (1994). Back To Text

[20] In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997); see also 17 U.S.C. § 106 (1994) (stating "the owner of [the] copyright . . . has the exclusive rights to do and to authorize"); Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (stating "the limited scope of the copyright holder's statutory monopoly . . . reflects a balance of competing claims upon the public interest: creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts."). Back To Text

[21] See Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). Back To Text

[22] See 17 U.S.C. § 201(d)(2) (1994) (stating "[a]ny of the exclusive rights comprised in a copyright . . . may be transferred . . . and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner"); In re Patient Educ. Media, Inc., 210 B.R. at 240 (stating "ownership is the sine qua non of the right to transfer, and the copyright law distinguishes between exclusive and nonexclusive licenses."); see also; 3 Melvin B. Nimmer & David Nimmer, Nimmer on Copyright, § 10.02[A] (1996) (discussing recognition of § 201(d)(2) as providing for principle of divisibility of copyright). Back To Text

[23] See In re Patient Educ. Media, Inc., 210 B.R. 237 at 240; see also 17 U.S.C. § 101 (1994) (stating "'transfer of copyright ownership' . . . is an . . . exclusive license . . . but not including a non−exclusive license."); I.A.E., Inc. v. Shaver, 74 F.3d 768, 775 (7th Cir.1996) (discussing difference between exclusive and non−exclusive licenses). Back To Text

[24] 17 U.S.C. § 201(d)(2) (1994) (stating "[a]ny of the exclusive rights comprised in a copyright . . . may be transferred . . . and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner."). See generally I.A.E., Inc. v. Shaver, 74 F.3d 768, 775 (7th Cir. 1996) (discussing permission granted by copyright holder to licensee in exclusive license arrangement to use material for specific use and promise by holder not to grant same permission to others); 3 Melvin B. Nimmer & David Nimmer, Nimmer on Copyright, § 10.02[A] (1996) (discussing recognition of § 201(d)(2) as providing for principle of divisibility of copyright). Back To Text

[25] See Everex Sys. v. Cadtrack Corp. (In re CFLC, Inc.), 89 F.3d 673, 679 (9th Cir. 1996) (declaring settled law regards nonexclusive licensee of patent has only personal and not property interest in patent and personal right cannot be assigned unless patent owner authorizes assignment or license permits assignment); MacLean Assoc., Inc. v. Mercer, Inc., 952 F.2d 769, 779 (9th Cir. 1991) (asserting licensor may still bring suit for copyright infringement in event licensee's use reaches beyond scope of nonexclusive license because nonexclusive license does not transfer ownership of copyright from licensor to licensee); In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (stating nonexclusive license does not transfer any ownership rights ownership remains in the licensor). Back To Text

[26] See Atherton v. FDIC, 519 U.S. 213, 218 (1997) (citing Erie R.R. Co. v. Thompkins, 304 U.S. 64 (1938)) (stating there is no federal general common law); O'Melvney & Myers v. FDIC, 512 U.S. 79, 83 (1994) (stating there is no federal general common law); Walker v. Armco Steel Corp., 446 U.S. 740, 745 (1980) (declaring applicable law in diversity cases is law of state except in matters governed by Federal Constitution); Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938) (declaring law of state applies in federal court because there is no such thing as federal common law). Back To Text

[27] 304 U.S. 64 (1938). Back To Text

[28] See Lane & Bodley Co. v. Locke, 150 U.S. 193, 195−96 (1893) (discussing prior Supreme Court holdings in which formal assignments void of words or clauses showing they were not assignable rendered contracts merely personal licenses with no extension of right to executor, administrator, or assignee); Oliver v. Rumford Chem. Works, 109 U.S. 75, 82 (1883) (declaring instrument of license will not carry right conferred to anyone but licensee personally unless there are express words to show intent to extend right to executor, administrator, voluntary or involuntary); Troy Iron & Nail Factory v. Corning, 55 U.S. 193, 216 (1852) (declaring patent licenses are not assignable without owner's consent). Back To Text

[29] 55 U.S. 193 (1852). Back To Text

[30] See Erie R.R. Co. v. Tompkins, 304 U.S. 64, 71 (1938) (rejecting notion of federal general common law). See generally Atherton v. FDIC, 519 U.S. 213 (1997) (stating requirement for federal court to apply federal common law rules there must be specific showing that state law will create conflict or will pose threat to some federal policy or interest); Horton v. Reliance Standard Life Ins. Co., 141 F.3d 1038, 1041 (11th Cir. 1998) (concluding federal courts when crafting body of common law may look to state law as model when interpreting insurance contracts). Back To Text

[31] See generally Perlman v. Catapult Entm't (In re Catapult Entm't), 165 F.3d 747, 750 (9th Cir. 1999) (stating precedents establish that federal patent law constitutes applicable law within meaning of § 365(c) and nonexclusive patent licenses are personal and assignable only with licensor's consent); Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 492 (1st Cir. 1997) (declaring federal common law rule of presumptive non−assignability qualifies as applicable law pursuant to Bankruptcy Code); Everex Sys., Inc. v. Cadtrack Corp. (In re CFLC, Inc.), 89 F.3d 673, 679−80 (9th Cir. 1996) (asserting federal law of non−assignability preempts state law relating to patent license assignabililty); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (opining assignability of patent license is specific policy of federal patent law rendering federal law applicable to assignment of patents). Back To Text

[32] 465 F.2d 1303 (7th Cir. 1972). Back To Text

[33] See Unarco, 465 F.2d at 1306; see also Hapgood v. Hewitt, 119 U.S. 226, 234 (1886) (reinforcing holding in Troy Iron); Troy Iron & Nail Factory v. Corning, 55 U.S. 193, 216 (1852) (holding patent licenses are personal licensees and cannot be assigned unless expressly stated in agreement). Back To Text

[34] See Unarco, 465 F.2d at 1306; see also Rock−Ola Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919, 923 (8th Cir. 1948) (holding patent license is unassignable unless licensee's consent is clear), cert. den., 335 U.S. 892 (1948). Back To Text

[35] See Unarco, 465 F.2d at 1306; see also In re CFLC, Inc., 89 F.3d at 678 (stating patent law is exception to Erie Rule); Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093 (6th Cir. 1979) (stating same). Back To Text

[36] See Unarco, 465 F.2d at 1305 (citing Sola Electric Co. v. Jefferson Co., 317 U.S. 173 (1942)) (holding estoppel is federal question where if invoked, would thwart purpose of federal statutes). Back To Text

[37] Id. at 1306. Back To Text

[38] See Quinn & Weide, supra note 15, at 1144. Back To Text

[39] See In re CFLC, Inc., 89 F.3d at 673 (holding non−exclusive patent licenses cannot be assigned without owner's consent), Kennedy v. Wright, 676 F.Supp. 888, 891 (C.D. Ill. 1988) (holding same), In re Alltech Plastics, 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987) (holding same). Back To Text

[40] See Unarco, 465 F.2d at 1306. Back To Text

[41] See PPG Indus., Inc. v. Guardian Indus., Inc., 597 F.2d 1090, 1093 (6th Cir. 1979) (stating assignability of patent license governed by federal law), cert. denied, 444 U.S. 930 (1979); Aaron Xavior Fellmeth, Control without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property Interest, 6 VA. J.L. & Tech. 8, 72 (2001) (stating federal common law applicable when used to protect "unique federal interests."); Quinn & Weide, supra note 15, at 1140 (stating federal policy dictates application of federal law on issue of assignability of patents). Back To Text

[42] See Everex Sys. v. Cadtrak Corp. (In re CFCL, Inc.), 89 F.3d 673, 679 (9th Cir. 1996) (questioning whether Seventh Circuit had not overstated basis for applying federal common law to patent area and calling into question whether there were serious issues about application of federal common law). See generally Allan R. Stein, Erie and Court Access, 100 Yale L.J. 1935, 1939 (1991) (discussing whether federal common law should apply); Daniel A. Wilson, Patent License Assignment: Preemption, Gap Filling, and Default Rutles, 77 B.U. L. Rev. 895, 906 (1997) (discussing lack of justification for result reached by court). Back To Text

[43] See Global Fin. Serv., Inc. v. Duttenhefner, 575 N.W.2d 667, 670 (N.D. 1998) (discussing few cases need federal rules of decision and courts holdings rarely create federal rules); Farmland Irrigation Co. Inc., v. Dopplmaier, 308 P.2d 732, 740 (Cal. 1957) (applying state law if favor of free transferability instead of general federal law); John B. Shumadine, Striking a Balance: Statutory Displacement of Established Federal Common Law and the D'Oench Doctrine in Murphy v. F.D.I.C. and Motorcity of Jacksonville LTD. v. Southeast Bank, 51 ME. L. Rev. 129, 152−53 (1999) (discussing whether California law or federal law should be applied). Back To Text

[44] See In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1999) (citing with approval SQL Solutions Inc. v. Oracle Corp., No. C−91−1079, 1991 WL 626458 (N.D. Cal. Dec. 18, 1991)); In re CFCL, Inc. at 679 (stating federal law holds nonexclusive license personal and nonassignable). See generally J. Dianne Brison, Software Distribution Agreements and Bankruptcy: The Licensor's Perspective, 64 Wash. L. Rev. 499, 532 (1989) (stating patent licenses are non−delegable and non−assignable). Back To Text

[45] See Ann Livingston & Honorable Leif M. Clark, Technology Transfers: What if the Other Party Files Bankruptcy?, 21 St. Mary's L.J. 173, 203 (1989) (discussing trademark licenses not having same risks as licenses for other technology); Madlyn Gleich Primoff & Erica G. Weinberger, E−Commerce and Dot.Com Bankruptcies: Assumption, Assignment and Rejection of Executory Contracts, Including Intellectual Property Agreements, And Related Issues Under sections 365(c), 365(e) and 365(n) of the Bankruptcy Code, 8 Am. Bankr. Inst. L. Rev. 307, 331 (2000) [hereinafter Primoff] (discussing assumption and assignability of trademark licenses). See generally Jason R. Wolfersberger, Illinois High School Association v. GTE Vantage, Inc.: Dual−Use Classification Threatens the Extinction of America's Small Trademark Holder, 32 Va. J.L. & Tech. 363, 388 (1997) (discussing issues related to trademarks). Back To Text

[46] See In re Superior Toy & Mfg. Co, Inc, 78 F.3d 1169, 1176 (7th Cir. 1996) (stating trademark license was assumed with court approval); In re Rooster, Inc, 100 B.R. 228, 229 (Bankr. E.D. Pa. 1987) (discussing whether license agreement may be assigned). Back To Text

[47] See e.g., Larry Engel, Intellectual Property and Related Asset Considerations in Bankruptcy Cases; Recent Developments Illustrate a Future Trend of Dysfunctional Conflict Among Competing IP and Commercial Law in Need of Reconciliation for Good Business, 767 PLI/Comm 1009, 1036 (1998) (discussing how conflict may lead to otherwise avoidable bankruptcies). See generally Aleta A. Mills, The Impact of Bankruptcy on Patent and Copyright Licenses, 17 Bankr. Dev. J. 575, 603 (2001) [hereinafter Mills] (discussing two approaches regarding non−exclusive patent & copyright licenses and how neither approach succeeds in combining bankruptcy and intellectual property policies); Primoff, supra note 44, at 322 (discussing assignment of non−exclusive patent license as inconsistent with federal patent policy). Back To Text

[48] See e.g., Nat'l Labor Relations Bd. v. Bildisco & Bildisco 465 U.S. 513, 527 (1983) (stating policy of chapter 11 as successful rehabilitation of debtors); United States v. Whiting Pools, Inc., 462 U.S. 198, 203 (1982) (stating "[c]ongress presumed that the assets of the debtor would be more valuable if used in a rehabilitated business than if 'sold for scrap.'"). See generally What Constitutes Success in Chapter 11? A Roundtable Discussion, 2 Am. Bankr.

Inst. L. Rev. 229, 240−45 (1994) (discussing different perspectives on successful chapter 11 cases). Back To Text

[49] See 11 U.S.C. § 365(a) (1994) (providing authority to trustee or debtor in possession to assume and assign any executory contract or unexpired lease); see also In re Martin Paint Stores, 199 B.R. 258, 263 (Bankr. S.D.N.Y. 1996) (upholding "[t]o prevent an assignment of an unexpired lease by demanding strict enforcement of a clause, and thereby contradict clear Congressional policy, a landlord or lessor must show that actual and substantial detriment would be incurred by him if the deviation in use was permitted.") (emphasis in original) (quoting In re U.L. Radio Corp., 19 B.R. 537, 544 (Bankr. S.D.N.Y. 1982)); U.L. Radio Corp., 19 B.R. at 544 (asserting "[s]ection 365 expresses a clear Congressional policy favoring assumption and assignment… [s]uch a policy will insure that potential valuable assets will not be lost by a debtor who is reorganizing his affairs or liquidating assets for distribution to creditors... [t]his policy parallels case law which disfavors forfeiture."). Back To Text

[50] 11 U.S.C. § 365(a) (1994) (stating "a trustee subject to the court's approval may assume or reject any executory contract or unexpired lease of the debtor."); see also S. Rep. No. 95−989, at 58 (1978), reprinted in 1978 U.S.C.C.A.N 5787, 5844 (stating "there is no precise definition of what contracts are executory, it generally includes contracts on which performance remains to some extent on both sides."). See generally In re El Paso Refinery, L.P., 220 B.R. 37, 44 (Bankr. W.D.Tex. 1998) (describing different consequences of executory contracts). Back To Text

[51] See In re Resource Technology Corp., 254 B.R. 215, 223 n.4 (Bankr. N.D.Ill. 2000) (illustrating contracts as one of three categories of debtor contracts "[w]here each party has unperformed obligations contingent on performance by the other"); Vern Countryman, Executory Contracts in Bankruptcy: Part I, 57 Minn. L. Rev. 439, 460 (1973) [hereinafter Countryman, Part I] (defining executory contracts as "obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other."). But see In re Chateaugay Corp., 130 B.R. 162, 165 (Bankr. S.D.N.Y. 1991) (opining "[a] contract is not executory where the non−debtor party has rendered full performance of its obligations, regardless of whether the debtor has rendered any performance at all."). Back To Text

[52] See 11 U.S.C. § 365 (1994) (dealing with assumption, rejection, and assignment of pre−petition contracts); see also Moody v. Amoco Oil Co., 734 F.2d 1200, 1212 (7th Cir. 1984) (holding if contract has been terminated prebankruptcy there is nothing left for debtor to assume), cert. denied, 469 U.S. 982 (1984); In re Holly's Inc., 140 B.R. 643, 680−81 (Bankr. W.D.Mich. 1992) (stating "[g]enerally, an executory contract must be assumed or rejected in its entirety; trustee or debtor in possession may not pick and choose terms or clauses in contract to assume or reject."). Back To Text

[53] 1 David G. Epstein et al., Bankruptcy § 5−8 (1992) (observing "[f]rom over thirteen years of case law under the Bankruptcy Code, it is clear that 'business judgment' standard is the majority view. . . . there are cases suggesting that the business judgment standard effectively means no review."); see also N.L.R.B. v. Bildisco, 465 U.S. 513, 523 (1984) (recognizing traditional "business judgment" standard when authorizing rejection of ordinary executory contracts); Johnson v. Fairco Corp. (In re Johnson), 61 B.R. 317, 320 (Bankr. N.D.Ill. 1986) (describing business judgment standard "lax standard . . . [o]nly where the debtor's actions are in bad faith or in gross abuse of its managerial discretion should the decision be disturbed."). Back To Text

[54] See 11 U.S.C. § 365(f)(2) (1994) (stating conditions necessary to be satisfied before executory contracts may be assigned); see also In re Wash. Capital Aviation & Leasing, 156 B.R. 167, 175 (Bankr. E.D.Va. 1993) (discussing necessity of § 365(f)(2) to be satisfied before assignment); In re Kinglore Farms, Inc., 64 B.R. 260, 261 (Bankr. N.D.Ill. 1986) (concluding "the act of assignment cannot be construed as an act of assumption" because assignment is conditional upon assumption). Back To Text

[55] In re Evelyn Byrnes, Inc., 32 B.R. 825, 829 (Bankr. S.D.N.Y. 1983) (upholding notion that to prevent assignment of commercial lease through use clause, landlord must show "actual or substantial detriment would be incurred if the deviation in use was permitted.") (quoting U.L. Radio Corp., 19 B.R. 537 at 544); In re Peterson's Ltd., Inc., 31 B.R. 524, 527 (Bankr. S.D.N.Y. 1983) (discussing negative effect use clauses, which prevent assignments, have on Bankruptcy Code); In re U.L. Radio Corp., 19 B.R. 537, 543 (Bankr. S.D.N.Y. 1982) (holding "[a]ny lease provision, not merely one entitled 'anti−assignment clause', would be subject to the court's scrutiny regarding its anti−assignment

effect."). Back To Text

[56] See 11 U.S.C. § 365(b)(3) (1994) (describing "shopping center amendments" which define what adequate assurance of future performance of leases of real property in shopping centers include); see also In re Sun TV and Appliances, Inc., 234 B.R. 356, 370 (Bankr. D.Del 1999) (finding § 365 illustrates "Congress' belief that use restrictions and tenant mix in shopping center leases are material."); In re Antwerp Diamond, Inc., 138 B.R. 865, 868 (Bankr. N.D.Ohio 1992) (asserting "[o]ne of the principal legislative purposes of the 1984 shopping center amendments to § 365 was to delete the 'substantial' aspect of any harm resulting from such a 'use' modification by a Debtor and, rather, require strict compliance with the 'use' provisions contained in the affected lease."). Back To Text

[57] See 11 U.S.C. § 365(f)(2) (1994) (providing, in part, debtor−in−possession may assign unexpired part of lease of debtor only if it assumes lease in accordance with § 365(a) and provides adequate assurance of future performance by assignee); see also In re Dial−A−Tire, Inc., 78 B.R. 13, 15 (Bankr. W.D.N.Y. 1987) (stating "the debtor−in−possession must provide adequate assurance that the prospective assignee will perform as required under the lease."); In re Taylor Mfg., 6 B.R. 370, 372 (Bankr. N.D. Ga. 1980) (explaining appropriateness of assignee is based on whether or not assignee can perform as well as debtor). Back To Text

[58] See 11 U.S.C. § 365(f)(1) (1994) (providing, "[e]xcept as provided in subsection (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection…"). See generally In re Ames Dep't Stores, 121 B.R. 160, 166 (Bankr. S.D.N.Y. 1990) (showing companies may freely assign its lease). But see 11 U.S.C. § 365(c) (1994) (excepting general rule that bankruptcy trustee may freely assign and delegate debtor's rights and duties under his executory contracts and unexpired leases). Back To Text

[59] See In re Standor Jewelers West Inc., 129 B.R. 200, 203 (B.A.P. 9th Cir. 1991) (holding, "[p]ursuant to § 365(f) of the Bankruptcy Code, a provision which conditions or restricts the ability of a debtor to fully realize the economic value of its lease upon assignment is invalid"); see also In re Jamesway Corp., 201 B.R. 73, 78 (Bankr. S.D.N.Y. 1996) (furthering idea of In re Standor); Epstein, David G., Nickles, Steve H. Nickles, & White James J., Bankruptcy, Vol I. § 5−17, p. 477 (1992).

"It is clear from the language of section 365(f), and the cases applying the language, that contractual clause prohibitions or restrictions on assignment are not enforceable in bankruptcy. A provision in a lease grating the landlord a right of first refusal in connection with any assignment was held unenforceable. A provision in a lease requiring payment of proceeds from the assignment to the landlord was held unenforceable. A lease provision increasing the rent on assignment would not be enforceable."

Id. Back To Text

[60] See In re Antonelli, 148 B.R. 443, 447 (Bankr. D. Md. 1992) (explaining that "[w]hat section 365(f) appears to give, section 365(c) seems to take away."). See generally In re Grove Rich Realty Corp., 200 B.R. 502, 506 (Bankr. E.D.N.Y. 1996) (opining exception was to be applied narrowly and to such circumstances as contracts for performance of nondelegable duties); In re Taylor Mfg., Inc., 6 B.R. at 372 (explaining further that exception is to be applied narrowly to contracts for performance of nondelegable duties). Back To Text

[61] See e.g., In re Pioneer Ford Sales, Inc., 729 F.2d 27, 28 (1st Cir. 1984) (illustrating that exception is not limited in its effect to personal service contracts); In re Catron, 158 B.R. 629, 636 (Bankr. E.D. Va. 1993) (quoting, "[t]he two clauses at the beginning of section 365(f) simply cannot be reconciled."). See generally U.S. v. Turkette, 452 U.S. 576, 585 (1981) (explaining how internal inconsistencies within statutes must be dealt with and can be applied to opposite goals). Back To Text

[62] In re Antonelli, 148 B.R. 443, 447 (D. Md. 1992). Back To Text

[63] See 11 U.S.C. § 365(c) (1994). See generally In re Magness, 972 F.2d 689, 695 (6th Cir. 1992) (stating "a general prohibition against the assignment of executory contracts, i.e., by contract or 'applicable law,' is ineffective against the trustee."); 3 Collier on Bankruptcy, § 365.06 at 56−57 (Lawrence P. King et al., eds., 15th ed. rev. 2001) (furthering view that personal service contracts are not assignable). Back To Text

[64] See e.g., In re CFLC, Inc., 89 F.3d 673, 676−77 (9th Cir. 1996) (explaining plain terms of statute control and will join Third and Eleventh Circuits in adopting hypothetical test); Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534, 537 (11th Cir. 1994) (utilizing hypothetical test), In re Catron 158 B.R. at 633 (holding, in part "section 365(c)(1)(A) articulates a hypothetical test for determining when a contract may be assumed or assigned by a trustee or debtor in possession."). Back To Text

[65] See Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't, Inc.), 165 F.3d 747, 751 (9th Cir. 1999) (explaining under actual test, debtor in possession is permitted to assume any executory contract as long as no assignment is contemplated), In re Neuhoff Farms, Inc., 258 B.R. 343, 350 n.13 (Bankr. E.D.N.C. 2000) (stating actual test considers whether debtor/debtor in possession will actually assign the contract), United States v. TechDyn Sys. Corp. (In re TechDyn Sys. Corp.), 235 B.R. 857, 860–61 (Bankr. E.D. Va. 1999) (explaining under actual test, debtor in possession may assume nonassignable contract as long as there is no attempt to assign it). Back To Text

[66] See In re Catapult Entm't Inc., 165 F.3d at 749−50 n.2 (stating "the weight of lower court authority appears to favor the 'actual test.'"); In re Neuhoff Farms, Inc., 258 B.R. at 350 (noting "[a] majority of the circuit courts have endorsed the 'hypothetical test,' while a majority of the lower courts have utilized the 'actual test.'"); In re TechDyn Sys. Corp., 235 B.R. at 861 (stating actual test has been adopted by "clear majority" of lower courts). Back To Text

[67] See In re Neuhoff Farms, Inc., 258 B.R. at 350 (stating "[a] majority of the circuit courts have endorsed the 'hypothetical test,' while a majority of the lower courts have utilized the 'actual test.'") (citing TechDyn Sys. Corp., 235 B.R. at 860−61); see also In re Catapult Entm't Inc., 165 F.3d at 749−50 (holding Ninth Circuit is bound by plain terms of § 365(c) and joins Third and Eleventh Circuits in adopting hypothetical test); City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534, 537 (11th Cir. 1994) (explaining that § 365(c) "presents a hypothetical question."); In re West Elecs., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (stating § 365(c) creates hypothetical test); Breeden v. Catron (In re Catron), 158 B.R. 629, 633 (E.D. Va. 1993) (utilizing hypothetical test in holding that partnership agreement was an executory contract and not assumable by debtor in possession), aff'd, 25 F.3d 1038 (4th Cir. 1994). Back To Text

[68] See In re Access Beyond Techs., Inc., 237 B.R. 32, 44 (Bankr. D. Del. 1999) (concluding non−exclusive grant to make, use, and sell patented invention is "a mere naked license" and not assignment); see also Zenith Elecs. Corp. v. Exzec Inc., 876 F. Supp. 175, 177−78 (N.D. Ill. 1995) (stating "[i]f the conveyance vests in the transferee the entire interest in the invention, or makes him a joint owner with the transferor in such entire interest, it transfers the monopoly to the same extent as the invention, and is an assignment.") (emphasis added), Preload Enter., Inc. v. Pac. Bridge Co., 86 F. Supp. 976, 979 (D. Del. 1949) (stating where conveyance of interest in invention leaves in alienor any exclusive rights in invention, or if rights conferred upon alienee are not exclusive, conveyance is license). Back To Text

[69] See In re Access Beyond Techs., Inc., 237 B.R. at 45 (concluding technology license agreement was executory contract because each party had material duty to perform in refraining from suing other party for infringement of any patents covered by license); see also Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (holding non−exclusive technology patent license was executory contract because licensor owed duty to refrain from suing licensee for infringement, and licensee owed performance of marking all products made under license with proper statutory patent notice). But see Enter. Energy Corp. v. United States (In re Columbia Gas Sys. Inc.), 50 F.3d 233, 244 n.20 (3d Cir. 1995) (explaining not every contract that appears executory because it has not been completely performed is executory for purposes of § 365). See generally Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp., 872 F.2d 36, 39 (3d Cir. 1989) (quoting Countryman, Part 1 supra note 46) (stating executory contract is "a contract under which the obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other."). Back To Text

[70] See In re Alltech Plastics, Inc., 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987) (stating pursuant to federal common law "it has long been the rule that patent licenses are personal and not assignable unless expressly made so."); see also In re CFLC, Inc., 89 F.3d at 679 ("Federal law holds a nonexclusive patent license to be personal and nonassignable."); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (holding federal law applies to question of assignability of patent license). Back To Text

[71] See In re Catapult Entm't, Inc., 165 F.3d at 750 (stating under 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."); see also Cinicola v. Scharffenberger, 248 F.3d 110, 126 n.19 (3d Cir. 2001) (noting the "hypothetical test" requires courts to decide whether, under applicable law, assignment to third party would be forbidden.); In re West Elecs., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (stating where non−bankruptcy law provides that contracting party would have to consent to assignment of debtor's contract to third party, then debtor (as debtor in possession) cannot assume that contract). Back To Text

[72] 237 B.R. 32 (Bankr. D. Del. 1999). Back To Text

[73] See id. at 36. Back To Text

[74] See id. at 37. Back To Text

[75] See id. at 40; see also Unarco Indus., Inc., 465 F.2d at 1306 (stating "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."); Paulus v. M.M. Buck Mfg. Co., 129 F. 594, 596 (8th Cir. 1904) (concluding license agreement was in fact not license because agreement sought to convey "the exclusive right to make, to use, and to vend the invention throughout the United States for the full term of the patent."). Back To Text

[76] See In re Access Beyond Tech., Inc., 237 B.R. at 44−45 (stating license agreement was non−exclusive but failing to provide any of other material terms of license agreement). Back To Text

[77] See id. at 43 (stating Hayes asserts "that the License Agreement is not executory, under the traditional test, because no performance by them was due at the commencement of these cases…[t]hus, the Debtors/Trustee submit that the License Agreement was, in fact, a sale."); see also Waterman v. Mackenzie, 138 U.S. 252, 255 (1891) (stating agreement is sale of patent only if it conveys: (1) whole patent with right to make, use, and sell invention, (2) undivided share of exclusive right, or (3) exclusive right to practice invention in specified area); Chesapeake Fiber Packing Corp. v. Sebro Packing Corp., 143 B.R. 360, 363, 375 (Bankr. Md. 1992) (concluding agreement was valid sale of patent rights when agreement read, "[patentee] hereby sells, assigns, transfers and sets over to [assignee] its entire right, title and interest in, to, and under the aforesaid Invention(s) and any and all Letters Patent."). Back To Text

[78] See In re Access Beyond Tech., Inc., 237 B.R. at 46 (stating "the License Agreement contains no corresponding prohibition with respect to Hayes. Under the expressio unius doctrine, the Debtors/Trustee argue that such a deliberate omission is tantamount to an express grant of permission and, thus, this Court may find that the License Agreement expressly provides that Hayes and its subsidiaries may freely assign their rights under the License Agreement."); see also Verson Corp. v. Verson International Group, 899 F. Supp. 358, 365 (N.D. Ill. 1995) (arguing agreement was assignment and not sublicense focusing on transfer of substantive rights.) Back To Text

[79] In re Access Beyond Tech., Inc., 237 B.R. at 49 (stating "[s]ince 3Com does not consent, the Debtors/Trustee may not assume or assign the License Agreement under section 365 or sell it under section 363."). Back To Text

[80] Id. at 44. Back To Text

[81] Id.; see also Preload Enters, Inc. v. Pacific Bridge Co., 86 F. Supp. 976, 979 (D. Del. 1949) (stating "if the rights conferred upon the alienee are not exclusive rights investing in him alone or him jointly with the alienor, the monopoly is not transferred and the conveyance is a license."). Back To Text

[82] See In re Alltech Plastics, Inc., 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987) (noting "[a] patent assignment pursuant to this section is distinguished from a patent license in that the former is said to be a transfer of the entire patent monopoly while a license grants only limited rights; ordinarily, the right not to be sued for infringement."). But see In re DAK Indus., Inc., 66 F.3d 1091, 1095 (9th Cir.1995) (finding non−exclusive license which permitted computer hardware seller to bundle and sell computers with Microsoft Word for Windows was actually sale, and not license). The court in Access Beyond distinguished DAK on ground that debtor had right to sell technology, not merely to use it. Even in view of DAK , it would be reasonable to predict that most bankruptcy courts are likely to conclude non−exclusive license agreements are not sales, but licenses. See Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp., 143 B.R. 360, 375 (D. Md. 1992) (holding assignment of patent right was absolute, noting agreement conveyed all of patent owner's right, title and interest), aff'd 8 F.3d 817 (4th Cir. 1993). Back To Text

[83] See In re Access Beyond Tech., Inc., 237 B.R at 43 (stating "[t]he traditional test…provides that a contract is executory only where the obligations 'of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other.'" (quoting Countryman, Part 1 supra note 46); see also Mills, supra note 47 at 586 (noting "[w]ith respect to nonexclusive patent and copyright licenses, courts usually have relied on the simple Countryman definition."). See, e.g., In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (explaining "the nonexclusive license does not transfer any rights of ownership [with] ownership remain[ing] in the licensor" and, therefore, "the nonexclusive licensee does not acquire a property interest in the licensed rights" thus "lack[ing] standing to sue for its infringement." "[T]he nonexclusive license is [thus] personal to the transferee…and the licensee cannot assign it to a third party without the consent of the copyright owner."). Back To Text

[84] See Countryman, Part 1 supra note 50 (noting "…the courts have treated a variety of contracts as executory contracts under the [Bankruptcy] Act where the obligations of both the bankrupt and the other contracting party remained at least partially and materially unperformed at bankruptcy."). See, e.g., In re Access Beyond Tech., Inc., 237 B.R. at 43 (finding "[e]ach party had at least one material duty to perform under the License Agreement: to refrain from suing the other for infringement of any of the patents covered by the license."); id. at 43−44 (stating "[f]urther, each party was required to grant the other party sub−licenses under third parties, patents, a duty which is coextensive with the terms of the License Agreement."). Back To Text

[85] See Id. at 43 (finding "[e]ach party had at least one material duty to perform under the License Agreement: to refrain from suing the other for infringement of any of the patents covered by the license."). Back To Text

[86] See id.; see also Everex Systems Inc., v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (holding licensor's obligation to forbear from suing licensee and to mark all products made under license, was both significant and continuing performance that made contract executory as to licensor); Spindelfabrik Suessen−Schurr v. Schubert & Salzer, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (noting "…the patentee…and his licensee, when making, using, or selling [the property in question], can be subject to suit under other patents."); id. ("[However]…patent license agreements can be written to convey different scopes of promises not to sue, e.g., a promise not to sue under a specific patent, or…a promise not to sue under any patent the licensor now has or may acquire in the future."). Back To Text

[87] 89 F.3d 673 (9th Cir. 1996). Back To Text

[88] See id. at 677 (stating duty to mark was material "[s]ince failure to mark deprives the patent holder of damages in an infringement action before the infringer has actual notice of infringement, 35 U.S.C. § 287, the licensee's performance of this duty is material."); see also 35 U.S.C. § 287(a) (1995) which provides:

"[p]atentees, and persons making or selling any patented article for or under them, may give notice to the public that the same is patented…by fixing thereon the word 'patent' or the abbreviation 'pat.' together with the number of the patent…. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter…."

id. Back To Text

[89] 71 B.R. 686 (Bankr. W.D. Tenn. 1987). Back To Text

[90] See In re Alltech Plastics, Inc., 71 B.R. at 687. Back To Text

[91] See id.; see also 11 U.S.C. § 365(c) (1994) (stating, depending on circumstances, "a trustee may not assume or assign any executory contract or unexpired lease of debtor, whether or not such contract or lease, prohibits or restricts assignment of rights or delegation of duties."). Section 365(c) then goes on to list four specific situations in which the trustee may not assume or assign an executory contract or unexpired lease. Id. Back To Text

[92] In re Alltech Plastics, Inc., 71 B.R. at 688; see infra text accompanying notes 142−53 (discussing circuit court case's view on whether federal common law of non−assignability should apply in bankruptcy cases); see also 11 U.S.C. § 365(f) (1994) (declaring when trustees may assign executory contracts or unexpired leases of debtor). Back To Text

[93] In re Alltech Plastics, Inc., 71 B.R. at 689; see also Troy Iron & Nail v. Corning, 55 U.S. 193, 216 (1852) (holding agreements granting patent licenses are personal and not assignable unless consented to); Unarco Indus., Inc., v. Kelly Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (citing Troy Iron & Nail holding that patent license agreements are not assignable without an express agreement by licensee). Back To Text

[94] See In re Alltech Plastics, Inc., 71 B.R. at 689; see also In re West Elec., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (holding federal law applicable law pursuant to § 365 (c)(1)); In re Patient Educ. Media, Inc., 210 B.R. 237, 242−43 (Bankr. S.D.N.Y. 1997) (applying rule stating federal law applies § 365(c) in instant case). Back To Text

[95] See In re Alltech Plastics, Inc., 71 B.R. at 688; see also In re Neuhoff Farms, Inc., 258 B.R. 343, 348 (Bankr. E.D.N.C. 2000) (stating "courts have concluded that section 365(c)(2) should be strictly and narrowly construed to apply only to contracts to make loans and other kinds of debt financing arrangements."); In re Fulton Air Serv., Inc., 34 B.R. 568, 572 (Bankr. N.D. Ga. 1983) (distinguishing § 365(c) from § 365(f)). Back To Text

[96] In re CFLC, Inc., 89 F.3d 673, 679 (9th Cir. 1996) (holding federal law governs assignability of patent licenses over state laws). Back To Text

[97] See id. at 674. Back To Text

[98] See id. at 675; see also Pearlman v. Catapult Entm't (In re Catapult Entm't, Inc.), 165 F.3d 747, 750 (9th Cir. 1999) (stating non−exclusive patent licenses personal, and not assignable without licensor consent); In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (holding licensee cannot assign nonexclusive license to third party without owner's consent). Back To Text

[99] Tompkins v. Erie R.R. Co., 98 F.2d 49, 50 (2d Cir. 1938) (applying Pennsylvania state law, not "general law," to case heard in Federal Court) cert. denied, 305 U.S. 637 (1938); see also In re CFLC, Inc., 89 F.3d at 678; Bobby Jones Garden Apartments, Inc. v. Suleski, 391 F.2d 172, 176 (5th Cir. 1968) (stating federal courts must ascertain and apply applicable state law). Back To Text

[100] In re CFLC, Inc., 89 F.3d at 677; see also Lear, Inc. v. Adkins, 395 U.S. 653, 661−62 (1969) (stating construction of license agreement is solely matter of state law); McCoy v. Mitsuboshi Cutlery, 67 F.3d 917, 920 (Fed. Cir. 1995) (stating express and implied licenses are both contracts governed by state contract law). Back To Text

[101] In re CFLC, Inc., 89 F.3d at 679; see also Sola Elec. Co. v. Jefferson Elec. Co., 317 U.S. 173, 175 (1942) (stating state law governs patent licenses unless federal law directly contradicts state law); Kennedy v. Wright, 851 F.2d 963,

968 (7th Cir. 1988) (holding state law governed all questions except those derived directly from federal law). Back To Text

[102] See In re CFLC, Inc., 89 F.3d at 679 (stating "free assignability" would discourage invention because one patent license granted by inventor could be sold to multiple third parties without inventor's consent); see also 35 U.S.C. § 154 (1994) (granting inventor sole right to make, use or sell invention in the United States for seventeen years); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150−51 (1989) (discussing intention behind federal patent system to encourage invention by granting exclusive rights to inventor for a period of years). Back To Text

[103] In re Patient Educ. Media, Inc., 210 B.R. 237, 243 (Bankr. S.D.N.Y. 1997) (holding nonexclusive license could not be transferred without owner's consent); see also 11 U.S.C. § 365(c)(1)(A)−(B) (1994) providing:

The trustee may not assume or assign any executory contract or expired lease of the debtor, whether or not such contract or lease prohibits or restricts assignments 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 from 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.

Id.; see also In re CFLC, Inc., 174 B.R. 119, 123 (N.D. Cal. 1994) (using patent law analogies in deciding case concerning transferability of copyright licenses). Back To Text

[104] In re Patient Educ. Media, Inc., 210 B.R. at 239 (discussing background of debtor). Back To Text

[105] See id. Back To Text

[106] See id. (stating debtor received non−exclusive license, unlimited as to time, to use photographs in its videotapes and packaging). Back To Text

[107] See id. at 240 (noting debtor had agreed to sell practically all of its assets, including its rights to the videotapes). Back To Text

[108] See id.; see also Everex Sys., Inc. v. Cadtrak Corp., 89 F.3d 673, 676 (9th Cir. 1996) (holding nonexclusive licenses of patents convey personal, not property rights); Gilson v. Ireland, 787 F.2d 655, 658 (D.C. Cir. 1983) (explaining "a non−exclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."). Back To Text

[109] See In re Patient Educ. Media, Inc., 210 B.R. at 240 (noting while grants of exclusive licenses constitute sales of copyrights, grants of non−exclusive licenses do not); see also 17 U.S.C. § 101(2001) (declaring "'[c]opyright owner', with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right."); see also MacLean Assoc., Inc. v. Wm. M. Mercer−Meidinger−Hansen, Inc., 952 F.2d 769, 778−79 (3d Cir. 1991) (holding requirement of 17 U.S.C. § 204 transfers of copyright ownership must be in writing does not apply to non−exclusive licenses, because grants of non−exclusive licenses are not transfers of ownership); Primoff, supra note 44 (noting case law uniformly recognizes non−exclusive licenses as executory contracts, as opposed to completed sales). Back To Text

[110] See In re Patient Educ. Media, Inc., 210 B.R. at 243; see also 11 U.S.C. § 365(c) (1994) (listing when trustee is not allowed to assume or assign debtor's executory contract); In re CFLC, Inc., 89 F.3d at 680 (holding under 11 U.S.C. § 365(c), appellee's objections precluded debtor from selling its license). Back To Text

[111] Perlman v. Catapult Entm't, Inc., (In re Catapult Entm't) 165 F.3d 747 (9th Cir. 1999); see also In re Access Beyond Tech., Inc., 237 B.R. 32, 47 (Bankr. Del. 1999) (holding 11 U.S.C. § 365(c) bars trustee from assuming non−exclusive license over licensor's objection); Primoff, supra note 44, at 320 (noting most courts now apply hypothetical test for assumptions). But see Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493−94 (1st

Cir. 1997) (rejecting "hypothetical test" and holding instead 11 U.S.C. § 365(c) requires "actual test" whereby courts make case−by−case inquiries to determine whether licensors are forced to accept performance from parties with whom they did not contract). Back To Text

[112] See In re Catapult Entm't, Inc., 165 F.3d at 748. Back To Text

[113] See id. Back To Text

[114] See id. at 749 (indicating on October 24, 1996 as part of reorganization plan Catapult filed motion with bankruptcy court to assume Perlman licenses). Back To Text

[115] See id. at 750 (explaining plain language of statute links assumption with assignability. Statute, by its terms, bars debtor from assuming license without non−debtor's consent where applicable law precludes assignment of license to third party). Back To Text

[116] See id. (disposing of three issues either not disputed by parties or clearly established: (1) assumed Perlman licenses were executory contracts within § 365; (2) held it was clearly established that § 365(c)'s use of term "trustee," includes chapter 11 debtor in possession; and (3) noted clear precedent that federal patent law constitutes applicable law and non−exclusive patent licenses assignable only with consent of licensor). Back To Text

[117] See id. Back To Text

[118] Everex Sys., Inc., v. Cadtrak, 89 F.3d 673, 680 (9th Cir. 1996) (finding federal law governs assignability of nonexclusive patent licenses and federal law makes such licenses personal and assignable only with consent of licensor). Back To Text

[119] In re Catapult Entm't Inc., 165 F.3d at 754−55 (basing holding on plain language of statute). Back To Text

[120] 11 U.S.C. § 365(c) (1994); see Daniel J. Bussel & Edward A. Friedler, The Limits on Assuming and Assigning Executory Contracts, 74 Am. Bankr. L.J. 321, 323 (2000) (indicating § 365 gets off on wrong foot by equating assumption and assignment notwithstanding sharp policy distinctions between them); see also 3 Collier on Bankruptcy ¶ 365.06 [1][d][i] at 365−59 (Lawrence P. King et al. eds., 15th ed. rev. 1999) (explaining non−assumption rule of § 365(c) intended to relieve non−debtor party to contract from having to deal with party other than debtor, in situations in which non−debtor party would be relieved of any obligation to continue such dealings). Back To Text

[121] See Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 154 B.R. 813, 815 (Bankr. M.D. Ga. 1993) (rejecting hypothetical test and finding where debtor in possession seeks only to assume contract and not to assign it to third party, § 365 does not apply), aff'd 27 F.3d 534 (11th Cir. 1994); see also In re Fastrax, Inc., 129 B.R. 274, 277 (Bankr. M.D. Fla. 1991) (asserting although § 365(c) provides debtor may not assign or assume, sensible construction of this section permits conclusion that section made to govern debtor in possession's ability to assign contracts which it already assumed); In re Cardinal Indus., Inc., 116 B.R. 964, 982 (Bankr. S.D. Ohio 1990) (finding no prohibition of assumption of partnership agreements by trustee on behalf of estate simply because agreements not assignable to hypothetical third party). Back To Text

[122] In re Catapult Entm't Inc., 165 F.3d at 750 (describing hypothetical test); see In re West Elec., 852 F.2d 79, 83 (3d Cir. 1988) (characterizing § 365(c)(1)as applying "hypothetical test"); see also 1 David G. Epstein, Steve H. Nickles & James J. White, Bankruptcy § 5−15 at 474 (1992) (explaining court's acceptance of "hypothetical test"). Back To Text

[123] See Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493 (1st Cir. 1997) (denouncing "hypothetical test"); see also Summit Inv. & Dev. Corp. v. Leroux (In re Leroux), 69 F.3d 608, 612−13 (1st Cir. 1995) (rejecting "hypothetical test"); Texaco Inc. v. Louisiana Land & Exploration Co., 136 B.R.658, 671 (M.D. La. 1992) (finding "hypothetical test" incorrect and stating it "furthers no bankruptcy purpose"). Back To Text

[124] See Institut Pastuer, 104 F.3d at 493−94 (distinguishing case from those allowing outright assignments); See, e.g., In re Leroux, 69 F.3d at 613 n.5 (discussing First Circuit's adoption of "actual" test for assumption instead of "hypothetical" test and allowing assignment in certain cases). Back To Text

[125] See Institut Pastuer, 104 F.3d at 490. Back To Text

[126] See id. Back To Text

[127] See id. Back To Text

[128] See id. Back To Text

[129] See id. at 490−91 (arguing use of hypothetical test); see also In re Access Beyond Tech., Inc, 237 B.R. 32, 48 (Bankr. Del. 1999) (describing impact of hypothetical test); Richard M. Cieri & Michelle M. Morgan, Licensing Intellectual Property and Technology From the Financially−Troubled or Startup Company: Prebankruptcy Strategies to Minimize the Risk in a Licensee's Intellectual Property and Technology Investment, 55 Bus. Law 1649, 1664 n.51 (2000) (discussing effect of hypothetical test on debtor's ability to assume and assign patent license). Back To Text

[130] See Institut Pastuer, 104 F.3d at 493−94 (rejecting Pasteur's proposed application of hypothetical test); see also Summit Inv. & Dev. Corp. v. Leroux (In re Leroux), 69 F.3d 608, 612−14 (1st Cir. 1995) (finding actual test applies under § 365 in determining whether non−debtor would be forced to accept performance under executory contract from third party); Mills, supra note 46 at 590 (stating: "[u]nder the actual test, assignment to a third party is still forbidden, but the debtor in possession may assume the executory contracts that will aid him in his reorganization."). Back To Text

[131] Institut Pastuer, 104 F.3d at 493−94; see also In re Leroux, 69 F.3d at 612−13 (rejecting hypothetical test and applying case−by−case inquiry under actual test). See generally Mills, supra note 46, at 590 (examining manner in which various circuits apply hypothetical test versus actual test). Back To Text

[132] See Institut Pastuer, 104 F.3d at 493 (stating "the bankruptcy court must focus on the performance actually to be rendered by the debtor−in−possession with a view to ensuring that the non−debtor party will receive 'the full benefit of its bargain.'") (citing Summit, 69 F.3d at 612−613); see also S. Rep. No. 95−989, at 59 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 5845 (explaining "if the trustee is to assume a contract or lease, the court will have to insure that the trustee's performance under the contract or lease gives the other contracting party the full benefit of his bargain.") (emphasis added); see also Lawrence J. LaSala, Note, Partner Bankruptcy and Partnership Dissolution: Protecting the Terms of the Contract and Ensuring Predictability, 59 Fordham L. Rev. 619, 638 (1991) [hereinafter LaSala, Partner Bankruptcy] (asserting "[t]hus, when courts . . . allow the trustee or debtor in possession to assume a partnership agreement, they violate the expectations of the non−debtor partners and arguably undermine the established notions of freedom of contract and enjoying the benefit of one's bargain."). Back To Text

[133] See Institut Pasteur, 104 F.3d at 492−93 (affirming bankruptcy courts decision that sale of stock was not de facto assignment but merely assumption of cross−licenses by reorganized debtor under new ownership); see also Baxter Healthcare Corp. v. O.R. Concepts, 69 F.3d 785, 788 (7th Cir. 1995) (finding plaintiff did not have cause of action in claiming sale of stock by defendant constituted assignment, in violation of non−assignment provision in contract because defendant corporation "at all times remained an independent and functioning organization."). See generally U.S. Cellular Inv. Co. of LA. Inc., v. Airtouch Cellular, 2000 U.S. Dist. LEXIS 4731 at *20 (C.D. Cal. March 27, 2000) (stating "[u]nder California law, the sale of the stock of a corporation does not constitute a transfer or assignment of the underlying property or assets of the corporation."). Back To Text

[134] See Institut Pastuer, 104 F.3d at 491−92. See generally In re Leroux, 69 F.3d at 612 (finding non−debtor [licensor] party could not cause debtor to lose its option to assume contract when debtor never intended to assign contract to another entity, if either particular executory contract or applicable non−bankruptcy law purported to terminate contract automatically upon filing of chapter 11 petition, or to preclude its assignment to entity not party to contract.); Gould v. Antonelli (In re Antonelli), 1993 U.S. App. LEXIS 21529 at *18−19 (4th Cir. August 23, 1993) (affirming plan

provision calling for debtor/partner to make partnership management decisions at direction of committee, consisting of debtor and creditors, justified even if its effect was assignment, because debtor/partner "retains the right to advise, consult, and bring to bear his considerable experience in making partnership decisions."). Back To Text

[135] Institut Pastuer, 104 F.3d at 494 (stating "[t]hese cross−licenses explicitly authorize CBC to share its license rights with any 'affiliated company,' which on its face presumably encompasses a parent corporation such as bioMerieux's subsidiary."). Back To Text

[136] See Larry Engel, Intellectual Property and Related Asset Considerations in Bankruptcy Cases; Recent Developments Illustrate a Future Trend of Dysfunctional Conflict Among Competing IP and Commercial Law in Need of Reconciliation for Good Business, 767 PLI/Comm 1009, 1037 (1998) (stating "[o]f course, licensors increasingly are using 'change in control' provisions in order to close this loophole [allowing debtors to execute plan to cancel existing shares then divest other assets and then issue new shares to the purchaser] in IP laws prohibiting assignments of licenses without the licensor's control."). But see Jamestown v. James Cables Partners, L.P., 27 F.3d 534, 538 (11th Cir. 1994) (holding Bankruptcy Code did not prohibit assumption by debtor in possession of cable franchise agreement granted by plaintiff, despite prohibition on assignment of franchise contained in ordinance granting such franchise). Back To Text

[137] See In re CFLC, Inc., 89 F.3d at 677 (finding § 365 only allows assumption and assignment of executory contracts). This is because if the contract is non−executory, and if there is an anti−assignment clause, then such a clause is fully enforceable. It is only in executory contracts that relief can be found. See infra note 138 and accompanying text. See generally Countryman, Part 1, supra note 50, at 460 (providing definition of executory contract as "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other."). Back To Text

[138] See Michael T. Andrew, Executory Contracts in Bankruptcy: Understanding Rejection, 59 U. Colo. L. Rev. 845, 893 (1988) [Hereinafter Andrew, Executory Contracts] (noting "I wonder whether or not an executory contract might not be defined simply as a contract under which (a) debtor and non−debtor each have unperformed obligations, and (b) the debtor, if it ceased further performance, would have no right to the other party's continued performance."); Countryman, Part 1, supra note 50, at 460 (stating "a contract under which the obligation of both the bankrupt and the counter party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other."); Jay L. Westbrook, A Functional Analysis of Executory Contracts, 74 Minn. L. Rev. 227, 230−231 (1989) (arguing that judging whether or not a contract is executory wastes time, a more "functional" approach is better). See generally H.R. Rep. No. 95−595, at 347 (1977) (noting "though there is no precise definition of what contracts are executory, it generally includes contracts on which performance remains due to some extent on both sides."). Back To Text

[139] Chatanooga Memorial Park v. Still (In re Jolly), 574 F.2d 349, 351 (6th Cir 1978) (explaining further, "[i]f those objectives have already been accomplished, or if they can't be accomplished through rejection, then the contract is not executory within the meaning of the Bankruptcy Act."), cert. denied, 439 U.S. 929 (1978); see also La Electronica, Inc. v. Capo−Roman (In re La Electronica, Inc.), 995 F.2d 320, 322 n.3 (1st. Cir. 1993) (explaining "[a] few courts, treating professors Countryman's definition as 'helpful but not controlling,' hold that the determination whether a contract 'is executory' requires a more functional approach, 'with an eye towards furthering the policies of the Bankruptcy Code.'"); Countryman, Part 1, supra note 50, at 460 (asserting "a contract under which the obligation of both the bankrupt and the counter party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other."). Back To Text

[140] See In re Jolly, 574 F.2d at 351 (rejecting Countryman "material breach" definition and advocating "working backwards," starting with the purpose of rejecting executory contract); see also In re Drexel Burnham Lambert Group, 138 B.R. 687, 696 (Bankr. S.D.N.Y. 1992) (deciding Professor Westbrook is correct in arguing "the threshold requirement of 'executoriness' is not merely unnecessary, but leads to error."); Countryman, Part 1, supra note 50, at 460 (explaining "a contract under which the obligation of both the bankrupt and the counter party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing

performance of the other."). Back To Text

[141] See Andrew, Executory Contracts, supra note 137, at 889−95 (stating functional approach to whether a contract is executory is determined by weighing benefits of assumption against rejection produced for estate). But see In re Child World, Inc. 147 B.R. 847, 851 (Bankr. S.D.N.Y. 1992) (arguing functional approach "ignores the statutory requirement that the contract to be assumed or rejected must be 'executory.'"). Back To Text

[142] 48 Cal. 2d 208, 218 (1957) (holding in light of Erie v. Tompkins "[t]he law governing the elements of the of the plaintiffs cause of action is state law−state law acting of its own force and not merely by incorporation into federal law."); see also In re CFLC, Inc., 174 B.R. at 122 (holding courts cannot follow the reasoning of Justice Traynor in Dopplemaier); Verson Corp. v. Verson Int'l Group, PLC, 899 F. Supp. 358, 363 (N.D. Ill. 1995) (criticizing Dopplmaier). Back To Text

[143] Hapgood v. Hewitt, 119 U.S. 226, 234 (1886) (stating licenses not assignable); see also Lane & Bodley Co. v. Locke, 150 U.S. 193, 195−196 (1893) (explaining how Hapgood impacted patent assignability); Troy Iron & Nail Co. v. Corning, 55 U.S. 193, 216 (1852) (stating patent was purely personal, and it dissolved once corporation's license ended). Back To Text

[144] See Dopplmaier, 48 Cal. 2d at 220. (explaining further "[t]he purpose in granting a patent monopoly is to promote progress in science and the useful arts by simulating invention and encouraging disclosure. . . so long as state law does not destroy the advantages of the monopoly, it respects the federal purpose. . . ."). Back To Text

[145] See id. at 221; see Troy Iron & Nail Co., 55 U.S. at 216 (stating patents purely personal). See generally Masterson v. Sine, 68 Cal. 2d 222, 230 (Sup. Ct. 1968) (asserting, even without solid evidence indicating a personal nature, substitution might be barred where circumstances indicate personal nature). Back To Text

[146] Dopplemaier, 48 Cal. 2d at 221; see also In re Terry, 245 B.R. 422, 426 n.9 (Bankr. N.D. Georgia 2000) (noting assignability of contract rights); see also LaRue v. Groenzinger, 84 Cal. 281, 283 (1890) (discussing early common law assignability rights). Back To Text

[147] Daniel A. Wilson, Patent License Assignment: Preemption, Gap Filling, and Default Rules, 77 B.U.L. Rev. 895, 911 (1997); see also Mark A. Lemley, Beyond Preemption: The Law and Policy of Intellectual Property Licensing, 87 Cal. L. Rev. 111 (1999) (discussing federal patent policy preemption of state patent law). But see Mark J. Henry, State Courts Hearing Patent Cases: A Cry for Help to the Federal Circuit, 101 Dick. L. Rev. 41, 63 (1996) (discussing impact of Lear decision to jurisdictional question of which court should hear license/assignment cases was federal patent policy controls over state law). Back To Text

[148] Carole A. Quinn and R. Scott Weide, Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability, 32 Creighton L. Rev. 1121, 1145 (1999). Back To Text

[149] 899 F. Supp. 358, 363 (N.D. Ill. 1995) (holding "we cannot overlook decades of precedent," despite In re CFLC). Back To Text

[150] Id. (requiring compelling evidence of parties' intent before right to assign can be implied); see also Prudence Realization Corp. v. Geist, 316 U.S. 89, 95 (1942) (noting number of cases where Supreme Court held federal, not local law, applies); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (explaining general rules of assignability of patent license agreements in discussion of state versus federal law preemption). Back To Text

[151] In re CFLC, 89 F.3d at 680. Back To Text

[152] See id. at 679; see also In re Access Beyond Tech. Inc., 237 B.R. 32, 45 (Bankr. Del. 1999) (quoting In re CFLC, while discussing policy reasons for allowing patent holder to choose who may use invention); Unarco, 465 F.2d at 1306 (noting patent monopoly power overlaps federal statutes so calls for federal regulation). Back To Text

[153] See Dopplmaier, 48 Cal.2d at 221 (looking to language of instrument, intent of parties, and purpose of

contract to ascertain assignability rights). See generally Rock−Ola Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919, 922 (8th Cir. 1948) (explaining "the instrument of license is not which will carry the right conferred to any one but the licensee personally, unless there are express words to show an intent to extend the right to an executor, administrator, or assignee, voluntary or involuntary"); Westinghouse Elec. & Mfg. Co. v. Tri−City Radio Elec. Supply, 23 F.2d 628, 631 (8th Cir. 1927) (noting clear and unambiguous language of contract limits licensing of product). Back To Text

[154] 11 U.S.C § 365 (f)(2) (1994); see Metro. Airports Communication v. Northwest Airlines (In re Midway Airlines) 6 F.3d 492, 496 (7th Cir. 1993) (holding "applicable laws" meant applicable non− bankruptcy laws); In re Magness, 972 F.2d 689, 695 (6th Cir. 1992) (including laws upholding anti−assignment provisions in contract). Back To Text

[155] See In re Antonelli, 148 B.R. 443, 447 (D. Md. 1992). Explaining:

Having outlined the issues, I cannot say with any sense of intellectual honesty that I believe that traditional approaches to legal analysis will lead to a principled conclusion. In my view the reality is that in attempting to accommodate competing policy interests, all of which are of substantial weight, Congress has enacted statutes which impose conflicting mandates and has created a statutory scheme leaving interstices which the courts necessarily must fill on a case by case basis. Under these circumstances I will not ornament my holding with a facade of precedent or references to what I deem to be inconclusive statutory language. Rather, I will simply state that I have concluded that here the Bankruptcy Court correctly found that the Plan properly balances the countervailing interests of expediting bankruptcy proceedings and maximizing the bankruptcy estate, on the one hand, and assuring fairness to non−debtor parties, on the other.

Id.; see also 11 U.S.C 365 § (f)(2) (1994); In re LHD Realty Corp. 20 BR 717, 719 (Bankr. S.D. Ind 1986) (holding Congressional intent to provide specific debtor remedy while balancing interests). Back To Text

[156] See In re Manor Place Dev. Assoc., L.P., 144 B.R. 679, 682 (Bankr. D. N.J. 1992) (narrowing exception as applying only to real property partnerships); In re Fastrax, Inc., 129 B.R. 274, 278 (Bankr. N.D. Fla. 1991) (limiting exception to personal services contracts); In re Taylor Mfg., 6 B.R. 370, 372 (Bankr. N.D. Ga. 1980) (finding exception applies regarding to non−delegable duties). Back To Text

[157] See Primoff & Weinberger, supra note 45 at 334 (stating § 365(c) limits § 365(f) only when applicable law specifically excuses party from accepting or rendering performance because identity of contracting party was material); see also In re Midway Airlines, 6 F.3d at 496 (discerning section hones in on situations where identity is central issue); In re Nitec Paper Corp, 43 B.R. 492, 497 (Bankr. S.D.N.Y. 1984) (applying section in utility contract). Back To Text

[158] See In re Sunrise Rest., Inc., 135 B.R. 149, 152 (Bankr. M.D. Fla. 1991) (distinguishing franchise contracts from personal services); In re Fastrax, Inc., 129 B.R. at 278 (distinguishing subcontracts from personal services); In re Alltech Plastics, Inc., 71 B.R. 686, 688 (Bankr. W.D. Tenn. 1987) (finding patents excepted as non−assignable). Back To Text

[159] Restatement (Second) of Contracts § 237 (arguing "[e]ffect as stated in § 240, it is a condition of each party's remaining duties to render performance to be exchanged under an exchange of promises that there be no uncured material failure by the other party to render any such performance due at an earlier time."); Id. § 241 (1979) (providing factors for determining when a failure to render performance is "material," and as one such factor, looks to "the extent to which the injured party will be deprived of the benefit which he reasonably expected."). Back To Text

[160] L.R.S.C. Co. v. Rickel Home Ctrs., Inc. (In re Rickel Home Ctrs., Inc.), 209 F.3d 291, 299 (3d Cir. 2000) (describing how Bankruptcy Code favors free assignability); In re Columbia Gas Sys. Inc., 50 F.3d 233, 238 (3d Cir. 1995) (explaining how law favors assignment of executory contracts to prevent material breach); Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp., 872 F.2d 36, 39 (3d Cir. 1989) (finding service contract for fuel requirements to be freely assignable in accord with Code). Back To Text

[161] No available published statistic proves this point; but one need only refer to the large number of retail bankruptcies where the debtor has sought to sell most or all of its assets, including the bulk sale of literally hundreds of leases in a single case. See In re Serv. Merch. Co., 256 B.R.755, 763−64 (Bankr. M.D.TN. 2000) (allowing debtor shopping center to sublease some of its spaces); Siegel v. Schulte (In re Wil−Low Cafeterias, Inc.), 111 F.2d 83, 85 (2d Cir. 1940) (allowing debtor to sublease property with court approval). Back To Text

[162] 15 F.Cas 514, 515 (D. Mass 1869) (holding license contracts transmissible to successor corporation); see also Lane & Bodley Co. v. Locke, 150 U.S. 193, 196 (1893) (noting licenses transmissible by succession); Dunkley Co. v. Cali Packing Corp., 277 F. 996, 999 (2d Cir. 1921) (recognizing doctrine of succession). Back To Text

[163] See Lightner, 15 F.Cas at 514; Lane & Bodley Co., 150 U.S. at 196 (recognizing Lightner's holding, "a license, though not usually transferrable, is transmibble by succession. . . ."); see also Heywood−Wakefield Co. v. Small, 87 F.2d 716, 718 (1st Cir. 1937) (distinguishing facts from Lane & Bodley to explain why succession doctrine is inapplicable); Rowell v. Rowell, 99 N.W. 473, 479 (Wis. 1904) (distinguishing Lane & Bodley as it does not to extend to implied licenses to use patent belonging to individual partners). Back To Text

[164] See Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 494 (1st Cir. 1997) (holding sale of stock and ownership of patent licenses to corporation survive without interruption); see also Cinicola v. Scharffenberger, 248 F.3d 110, 127 (3d Cir. 2001) (discussing decision of Institut Pasteur); Beal Bank, S.S.B. v. Waters Edge Ltd. Partnership, 248 B.R. 668, 680 (Bankr. D. Mass. 2000) (upholding Institut Pasteur in reference to stock sale in limited partnerships; it does not alter partnership's identity). Back To Text

[165] Farmland Irrigation Co. v. Dopplmaier, 308 P.2d at 740 (stating "[i]f William H. Stout had simply sold his stock in the corporation, defendant could surely not contend that the corporation's rights under the license would be extinguished."). Justice Traynor argued that the failure to provide that the corporate stock or control could not be sold was evidence that the agreement was not truly "personal," which is at the heart of the notion of non−assignability. Id; see also In re CFLC, Inc., 174 B.R. at 121−22 (discussing whether assignment of rights are barred under patent law); Verson Corp. v. Verson International Group PLC, 899 F.Supp. at 363 (questioning validity of Dopplemaier). Back To Text

[166] See Dopplemaier, 308 P. 2d at 740 (citing Lane & Bodley, holding where "the corporation formed by the union of two licensees succeeding to the obligations of both, for the reason that the consolidated company is the successor rather than the assignee of the original companies."). Back To Text

[167] See In re Access Beyond Tech., Inc., 237 B.R. 32, 49 (Bankr. D. Del. 1999) (stating debtors cannot assume and assign license agreement even by employing stock sale); see also In re Novon Intern., Inc., 2000 WL 432848, *5 (W.D.N.Y. 2000) (explaining patent license transferability); 6A Norton Bankr. L. & Prac. 2d § 151:30 (supporting general notions patent licenses are not assignable, especially where license terms prohibit assignment). Back To Text

[168] See PPG Indus. Inc., v. Guardian Indus. Corp., 597 F.2d 1090, 1093 (6th Cir. 1979) (asserting mergers permit transfers of patent licenses); Nicolas M. Salgo Assoc. v. Cont'l Ill. Prop., 532 F.Supp. 279, 282−83 (D. D.C. 1981) (holding mergers effect interest transfers, although consent required). But see Trubowitch v. Riverbank Canning Co., 182 P.2d 182, 188 (Cal. 1947) (focusing inquiry of patent license transferability on "whether the transfer by operation of law has had any adverse effects upon the party nominally protected by the 'anti−assignment' clause."). Back To Text

[169] See In re West Elec., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (prohibiting assumption of contract whereby it is subject to prohibition against assignment); see also In re Catapult Entm't Inc., 165 F.3d at 753 (finding licensee may not assume patent license without consent of licensor, and where patent law excuses assignment); Institut Pasteur, 104 F.3d at 493 (applying "actual test" to determine whether contract may be assumed). Back To Text

[170] See In re West Elec., Inc., 852 F.2d at 83 (using "hypothetical test"); see also Cinicola, 248 F.3d at 126 (upholding application of "hypothetical test"); In re Catapult Entm't, Inc., 165 F.3d at 749−50 (adopting "hypothetical test"). Back To Text

[171] See H.R. 833, 107th Cong. (1999) (attempting to amend text of 365(c) as indicated in main body after being passed by House of Representatives); see also Mark R. Campbell and Robert C. Hastie, Executory Contracts: Retention Without Assumption in Chapter 11 −− "Ride−through" Revisited,19 Am. Bankr. Inst. J. 33, 34−35 (2000) [Hereinafter Campbell & Hastie, Executory Contracts] (discussing changes to the Act); Mills, supra note 47, at 599−600 (2001) (analyzing potential changes to Act). Back To Text

[172] See H.R. 333, 107th Cong. (2001) (containing no amendment to 365(c)); S. 420, 107th Cong. (2001) (same); In re Walter B. Anderson, 266 B.R. 498, 506 (Bankr. Kan. 2001) (discussing changes pertaining to Bankruptcy Code); see also Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493−94 (1st Cir. 1997) (stating debtor in possession may assume patent licenses even though reorganization plan provides for transfer of debtor's stock to third party). Back To Text

[173] See U.S. v. Techdyn Sys. Corp. (In re Techdyn Sys. Corp.), 235 B.R. 857, 861 (Bankr. E.D. Va. 1999) (adopting hypothetical test); In re Cardinal Indus., 116 B.R. 964, 981 (Bankr. S.D. Ohio 1990) (laying out policy considerations with respect to the hypothetical test); Primoff, supra note 108, at 331−32 (explaining hypothetical test). Back To Text

[174] See In re El Paso Refinery, L.P., 220 B.R. 37, 44 (Bankr. W.D. Tex. 1998) (exclaiming "[i]ndeed, when one thinks about it, the 'relief from stay' option is not a true alternative to the assumption or rejection choice framed by 365 in any event."); Anderson v. Hoechst Celanese Corp. (In re United States Brass Co.) 173 B.R. 1000, 1006 (Bankr. E.D. Tex. 1994) (holding "[d]ebtor would be extremely prejudiced by a lifting of the stay," where "[d]ebtor has expressed a sincere desire to attempt reorganization and pay creditors claims."); see also Gregory G. Hesse, The Risk of An Offensive Use of Catapult, 2001 ABI JNL. LEXIS 65, *19 (2001) (believing congressional change may be needed to prevent this). Back To Text

[175] See Century Indem. Co. v. NGC Settlement Trust (In re National Gypsum Co.), 208 F.3d 498, 504 (5th Cir. 2000) (explaining ride through provision); Federal's, Inc. v. Edmonton Inv. Co., 555 F.2d 577, 579 (6th Cir. 1977) (allowing claim to survive bankruptcy); see also In re All American of Ashburn, Inc., 56 B.R. 186, 190 (Bankr. N.D. Ga. 1986) (applying successor doctrine). Back To Text

[176] See 11 U.S.C. § 365 (1994) (allowing debtor to assign assets); In re Condere Corp., 228 B.R. 615, 626 (Bankr. S.D. Miss. 1998) (allowing sale of assets outside ordinary course of business); In re Taylor, 198 B.R. 142, 156−57 (Bankr. S.C. 1996) (condoning sale of asset outside ordinary course of business); see also In re Office Prod. of Am., Inc., 140 B.R. 407, 410 (Bankr. W.D. Tex. 1992) (permitting debtor to assign asset). Back To Text

[177] L.R.S.C. Co. v. Rickel Home Centers, Inc. (In re Rickel Home Centers, Inc.), 209 F.3d 291, 303 (3d Cir. 2000) (citing with approval, In re Adamson Co. Inc., 159 F.3d 896 (4th Cir. 1998) (holding "[i]t is elementary that a leasehold is personal property and possibly of value to the debtor's estate, thus the assignment of a leases. . .is a sake of property to which 363(m) applies."); In re Exennium, Inc., 715 F.2d 1401, 1404 (9th Cir. 1983) (holding order "permitting the assumption and assignment of leases," was moot under 363(m).). Back To Text

[178] See Campbell and Hastie, Executory Contracts, supra note 171 at 34−35 (proposing strategy); see also Milstead v. Tele Media Broad. Inc. (In re Milstead), 197 B.R. 33, 35 (Bankr. E.D. Va. 1996) (recognizing in cases under chapter 11, 12, or 13, assumption or rejection of unexpired lease can be in form of provision in confirmed plan rather than by formal motion); In re Specialty Foods of Pittsburgh, Inc., 91 B.R. 364, 374 (Bankr. W.D. Pa. 1988) (proposing license agreements could pass through estate and avoid necessity of formal motion to assign). Back To Text

[179] In re Access Beyond Tech., 237 B.R. at 47 (opining "[t]o hold otherwise would be ludicrous.") Back To Text