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E−COMMERCE AND DOT−COM BANKRUPTCIES: ASSUMPTION, ASSIGNMENT AND REJECTION OF EXECUTORY CONTRACTS, INCLUDING INTELLECTUAL PROPERTY GREEMENTS, AND RELATED ISSUES UNDER SECTIONS 365(c), 365(e) AND 365(n) OF THE BANKRUPTCY CODE

Madlyn Gleich Primoff & Erica G. Weinberger [*]

Introduction

The proliferation of dot−com and e−commerce businesses has enabled the Internet to establish itself, in record time, as a valuable channel of commerce and information for businesses and consumers. The nascent phase of wide−eyed optimism and exuberance by Internet businesses and their investors has been tempered by growing recognition of the risks associated with e−commerce. During the past year, scores of dot−com companies have been sold (many in fire sales), shut down or have filed for protection under title 11 of the United States Code (the "Bankruptcy Code"). More dot−com bankruptcies are anticipated.

Like its traditional bricks and mortar counterpart, an e−commerce debtor will have garden variety executory contracts, such as office leases, equipment leases, and employment contracts that become part of its bankruptcy estate. [1] Additionally, an e−commerce debtor is also likely to have various intellectual property interests as owner, licensor or licensee. [2] For example, an e−commerce debtor may own patents, trademarks and copyrights; may have license agreements pursuant to which intellectual property rights relating to such patents, trademarks and copyrights are granted to other entities; and may have license agreements pursuant to which intellectual property rights that such debtor does not own are licensed from other entities. These intellectual property interests may be the most valuable assets of the e−commerce debtor. Accordingly, creditors' and investors' recovery from the e−commerce debtor may depend largely on the treatment of such intellectual property assets.

Section 365 of the Bankruptcy Code authorizes a debtor in possession or bankruptcy trustee to assume, assign or reject an e−commerce debtor's executory contracts and unexpired leases, and to sell the debtor's assets to maximize the value of its bankruptcy estate. [3] This Article will discuss the assumption, assignment and rejection of executory contracts of e−commerce debtors under section 365 of the Bankruptcy Code. It will focus particularly on the assumption, assignment and rejection of licenses and agreements relating to intellectual property. In addition, this Article will briefly discuss the sale of assets, including intellectual property, of an e−commerce debtor that is the subject of a case under the Bankruptcy Code.

Section I of this Article discusses the assumption, assignment and rejection of garden variety executory contracts of an e−commerce debtor. While intellectual property agreements receive special treatment under sections 365(c), 365(e) and 365(n) of the Bankruptcy Code, the general framework set forth in Section I is nonetheless the starting point for analysis of the assumption, assignment, and rejection of executory licenses and agreements relating to intellectual property in Section II.

Section II of this Article addresses sections 365(c), 365(e) and 365(n) of the Bankruptcy Code. These sections are the specific provisions that both impose limitations on the assumption, assignment and rejection of licenses and agreements involving intellectual property and which also afford certain protections to non−debtor parties to such intellectual property agreements. Section 365(c) of the Bankruptcy Code may prohibit the assignment, and in some cases even the assumption, of executory intellectual property licenses of the dot−com debtor without the consent of

the non−debtor party. Section II also highlights section 365(n) of the Bankruptcy Code, which applies only to executory contracts under which the debtor is a licensor of a right to intellectual property, and examines the balance that section 365(n) strikes between the interests of the non−debtor licensee and the dot−com debtor−licensor. Section III briefly discusses the application of section 363 of the Bankruptcy Code to the sale of intellectual property assets of a dot−com debtor.

I. Assumption, Assignment, And Rejection Of Executory Contracts Generally

Day−to−day operation of an e−commerce business, like its traditional bricks and mortar counterpart, is dependent upon a host of standard, plain vanilla executory contracts. For example, real property leases, equipment leases, service agreements, advertising and promotional agreements, and employment contracts are staples of any business −− Internet based or otherwise. In an e−commerce environment, there might also be server leases, domain name registration contracts, e−commerce retail fulfillment agreements and other agreements. Although these agreements may be laden with technological jargon, they typically are not centered around the exchange of intellectual property rights or assets. [4] The assumption, assignment or rejection of these garden variety executory contracts will generally not be affected by the existence, if any, of an intellectual property or high technology component.

The power of a dot−com debtor in possession or its trustee [5] to assume, assign or reject executory contracts furthers a fundamental objective of the Bankruptcy Code, which has been explained as follows:

The purpose behind allowing the assumption or rejection of executory contracts is to permit the trustee or debtor−in−possession to use valuable property of the estate and "to renounce title to and abandon burdensome property." 2 Collier on Bankruptcy ¶ 365.01[1] (15th Ed. 1993) . . . In short, section 365 permits the trustee or debtor in possession to go through the inventory of executory contracts of the debtor and decide which ones it would be beneficial to adhere to and which ones it would be beneficial to reject. [6]

The assumption, assignment and rejection of executory contracts generally will each be addressed, in turn, below.

A. Assumption of Executory Contracts Generally

Section 365(a) of the Bankruptcy Code, which authorizes the trustee of an e−commerce debtor to assume or reject executory contracts and unexpired leases, provides as follows:

Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor. [7]

If the debtor assumes an executory contract, it must assume the entire contract *cum onere* −− with all of its burdens. [8] The debtor may not cherry pick those parts that are to its liking, or accept only the benefits while rejecting the burdens. [9]

While the term "executory contract" is not defined in the Bankruptcy Code, the legislative history of and case law under section 365 rely on the *Countryman* definition [10] −− *i.e.*, "contracts on which performance remains due to some extent on both sides." [11] Under *Countryman*, a contract that has been fully performed on either side is not executory. [12] Some courts have held that a contract must be substantially unperformed on both sides to be executory. [13] In determining whether an agreement is an executory contract, courts will typically examine the unperformed duties and obligations of each party. [14]

Bankruptcy courts generally approve a trustee's decision to assume or reject an executory contract of an e−commerce debtor, provided reasonable business judgment was exercised in reaching the decision. [15]

If there has been a default in an executory contract of an e−commerce debtor, a trustee may not assume the contract unless certain requirements imposed by section 365(b) of the Bankruptcy Code have been satisfied at the time of assumption. [16] Such requirements are that the trustee:

(A) cures, or provides adequate assurance that the trustee will promptly cure, such default;

(B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract, for any actual pecuniary loss to such party resulting from such default; and

(C) provides adequate assurance of future performance under such contract. [17]

In short, to assume a contract, the trustee must demonstrate the ability to cure past defaults and meet future obligations under the contract. [18] The cure and adequate assurance conditions imposed on the debtor as a prerequisite to assumption of an executory contract are intended to ensure that the non−debtor party who is forced to continue performance receives the full benefit of its bargain. [19]

A. Assignment of Executory Contracts Generally

The assignment of an executory contract of an e−commerce debtor is governed by section 365(f) of the Bankruptcy Code. Pursuant to Bankruptcy Code section 365(f)(1), a trustee may assign an executory contract notwithstanding a provision in such executory contract, or in applicable law, which prohibits, restricts, or conditions the assignment of such contract. [20] Under Bankruptcy Code section 365(f)(2), the trustee may assign an executory contract of the dot−com debtor only if: (1) the trustee assumes such contract in accordance with the provisions of Bankruptcy Code section 365; and (2) adequate assurance of future performance by the assignee of such contract is provided, whether or not there has been a default in such contract. [21]

The adequate assurance requirement of Bankruptcy Code section 365(f)(2) ensures, or is intended to ensure, that the non−debtor party receives the benefit of its bargain. [22] Section 365(k) of the Bankruptcy Code underscores the importance of requiring adequate assurance of future performance prior to the assignment of an executory contract because it relieves both the trustee and the debtor's estate of any liability for any post−assignment breach of such contract. [23]

The Bankruptcy Code does not define the term "adequate assurance" or provide guidance regarding what will constitute adequate assurance. [24] Some courts have concluded that adequate assurance of future performance should be determined based on the facts and circumstances of a particular case. [25] The case law generally holds that the non−debtor "cannot rely on unreasonable criteria in rejecting a proposed assignee" and that "adequate" assurance need not be ironclad assurance. [26]

C. *Rejection of Executory Contracts Generally*

Pursuant to section 365(a) of the Bankruptcy Code, a trustee may reject any executory contract of an e−commerce debtor, subject to the bankruptcy court's approval. [27] As indicated above, the trustee's decision to reject an executory contract will generally be approved, provided that the trustee has exercised satisfactory business judgment. [28]

Section 365(g) of the Bankruptcy Code fixes the time at which rejection of an executory contract constitutes a breach of such contract. Breach is deemed to have occurred at the time the bankruptcy petition was filed if a debtor rejects an unassumed contract. [29] Any claim arising from such breach is treated as a prepetition general unsecured claim. [30]

By contrast, if the executory contract has been assumed, breach is deemed to occur when the executory contract is later rejected. [31] Any claim arising from such post−petition breach is entitled to administrative expense priority treatment. [32]

II. Assumption, Assignment, And Rejection Of Licenses And Executory Contracts Involving Intellectual Property

An e−commerce debtor may be the owner, licensor or licensee of a wide range of intellectual property interests involving patents, copyrights or trademarks. Such interests could arise out of straight license agreements, cross−license agreements, website design and development agreements, software development agreements, web page linking agreements, technology sharing agreements, joint ventures for the purpose of sharing intellectual property

rights, or other agreements. [33]

Whereas the purpose of section 365 of the Bankruptcy Code is to permit the trustee to retain or assign valuable contracts and to abandon burdensome contracts, sections 365(c), 365(e) and 365(n) of the Bankruptcy Code demonstrate that great deference is shown to the policies and principles underlying intellectual property statutes and laws. Bankruptcy Code sections 365(c), 365(e) and 365(n) and the case law thereunder: (1) impose limitations on the power of a trustee for an e−commerce debtor to assume, assign or reject licenses and executory contracts involving intellectual property; and (2) afford additional protection to non−debtor parties to intellectual property licenses and contracts. [34]

Sections 365(a), (b), (f), and (g) of the Bankruptcy Code [35] are the starting point for analysis of the assumption, assignment and rejection of intellectual property agreements in a dot−com bankruptcy. However, with respect to executory contracts involving intellectual property, the Bankruptcy Code imposes certain limitations on the assumption, assignment and rejection of such intellectual property agreements. As with garden variety executory contracts, before a court can permit assumption, assignment or rejection of an intellectual property agreement, a determination must be made *a fortiori* that such license or agreement was, in fact, executory at the time the bankruptcy petition was filed (and has continued to be executory thereafter). [36] This determination is more complicated for executory contracts involving intellectual property because a license may be held to be a sale, for the reasons discussed in subsection A below.

Even if a license or agreement involving intellectual property is executory, section 365(c) of the Bankruptcy Code, discussed below in subsection B, may prohibit the assignment or assumption of an agreement without the consent of the non−debtor party. Section 365(e) of the Bankruptcy Code, discussed below in subsection C, enforces ipso facto clauses in executory contracts involving intellectual property under certain circumstances. Finally, as discussed in subsection D below, subject to certain conditions, section 365(n) of the Bankruptcy Code permits a non−debtor licensee to elect to retain its rights under a rejected intellectual property license and, in essence, limits the effect given to rejection by the debtor−licensor.

A. Intellectual Property Licenses Relating to Patents, Copyrights And Trademarks − Executory Contract, Non−Executory Contract or Sale

Before a court will permit the assumption, assignment or rejection of a license or agreement involving intellectual property, it must determine that the license or agreement is indeed an executory contract, rather than a non−executory contract, sale or other transaction. [37] The case law uniformly holds that license agreements are executory contracts within the meaning of section 365 of the Bankruptcy Code. [38]

Merely describing an agreement as a "license" is not dispositive. Bankruptcy courts look behind the parties' label to the true nature and economic reality of the relationship in question to determine whether a contract is executory. [39]

Under the *Countryman* definition of executory contracts, licensing agreements are typically executory because each party remains obligated to perform under the agreement − the licensor by not suing for infringement and the licensee by using the intellectual property only in accordance with the terms of the agreement (*i.e.*, not infringing). [40] Several courts recognize the licensor's duty to forbear from suing the licensee for infringement as, in and of itself, a material ongoing performance obligation that makes the agreement executory. The United States Bankruptcy Court for the District of Delaware held in *In re Access Beyond Technologies, Inc.*, [41] as follows:

Each party has 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. This performance is material since the licensor's promise to refrain from suing the licensee for infringement is the raison d'etre for a patent license. *See, e.g.*, DeForest Radio Tel. & Tel. Co. v. United States, 273 U.S. 236, 242, 47 S. Ct. 366, 71 L. Ed. 625 (1927) (a waiver of the right to sue for infringement created a nonexclusive patent license); Jacob Maxwell, Inc. v. Veeck, 110 F.3d 749, 753 (11th Cir. 1997) (implied nonexclusive license to use copyrighted material barred suit); Spindelfabrik Suessen−Schurr Stahlecker & Grill, GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (a patent license agreement is nothing more than a promise by licensor not to sue licensee). [42]

Provisions of a license agreement concerning royalty payments, revocation, and duration or term of the license are some of the hallmarks of an executory license, as opposed to a non−executory sale of the intellectual property that is the subject of the license. [43] Depending on the nature of the intellectual property involved, a license agreement may impose on the parties any number of on−going performance obligations, including responsibilities relating to reporting, labeling, policing, service, maintenance, and technological upgrades. [44] The contingency or remoteness of the obligation imposed by a license agreement does not prevent the agreement from being deemed executory in nature. [45]

In some instances, a court may determine that an intellectual property licensing agreement is not truly executory, but is rather a non−executory contract or sale. The characterization of a particular license agreement as exclusive or non−exclusive may affect the determination of whether such license is ultimately held to be an executory contract. A non−exclusive license typically grants a licensee the mere right (*i.e.* permission) to use certain intellectual property; the licensor retains the rights and remedies associated with ownership of the intellectual property. [46] An exclusive license to use intellectual property, by contrast, may transfer title or ownership to the subject intellectual property. [47] Accordingly, an *exclusive* intellectual property license may constitute a sale [48] because an exclusive license confers upon the licensee (and divests the licensor of) all or some portion of the ownership rights and interests associated with the intellectual property pursuant to well established principles of patent, copyright and trademark law. [49]

At least one reported decision has characterized a non−exclusive license under which the licensor had no remaining material performance obligations as a sale. In *Microsoft Corp. v. DAK Industries, Inc.* (*In re DAK Indus., Inc.*), [50] Microsoft had entered into a prepetition software agreement that permitted the debtor to install software on computers it sold. [51] Microsoft asserted an administrative expense claim based on the debtor's post−petition distribution of the software. [52] Under the agreement, the debtor was obligated to pay Microsoft a minimum of $2,750,000 in five installments, regardless of how many copies of the software the debtor actually sold on its computers. [53]

The Ninth Circuit concluded that the minimum commitment contract in question was "best characterized as a lump sum sale of software units to DAK, rather than a grant of permission to use an intellectual property." [54] The Ninth Circuit's conclusion was based, in part, on the following facts: (1) the pricing and timing of the payments were more consistent with a sale than a lease or license, (2) the debtor received all of its rights at the beginning of the agreement and (3) the agreement did not simply permit the debtor to use the technology, but rather permitted the debtor to sell the technology. [55] In addition, the license contained standard conveyance language, *i.e.* the patent holder "sells, assigns and transfers and sets over to" the licensee "its entire right, title and interest in, to, and under" the patents. Notably, Microsoft had already delivered all of the units and thereby completed its performance prior to the date of the petition. The implications of the Ninth Circuit's decision in *DAK Industries* should be considered when drafting license agreements which permit a distributor to sublicense or sell directly the subject intellectual property.

The determination of whether a license is an executory contract or a sale is significant. Because an exclusive debtor−licensee may own the rights in the intellectual property granted under a licensing agreement, such debtor could continue to use the intellectual property without assuming the license pursuant to section 365 of the Bankruptcy Code. [56] Alternatively, such debtor could sell such rights pursuant to section 363 of the Bankruptcy Code without complying with the conditions "imposed" on assignment under section 365 of the Bankruptcy Code. [57] In essence, the debtor would not be subject to either the cure and adequate assurance requirements imposed by Bankruptcy Code sections 365(b) and 365(f) or the limitations on assumption and assignment imposed by Bankruptcy Code sections 365(c) and (e) discussed below. And, an intellectual property agreement which is non−executory or a sale is also not subject to rejection.

B. Section 365(c) of the Bankruptcy Code: Limitations On Right to Assume or Assign Intellectual Property Licenses

The assumption and assignment of executory contracts by an e−commerce debtor can have serious implications for a non−debtor licensor or licensee because technology and intellectual property licenses frequently contemplate an on−going relationship between the licensor and the licensee during the term of the agreement. The identity of the contracting parties is thus material to the agreement. As discussed below in this subsection, under section 365 of the Bankruptcy Code an executory intellectual property contract will be held to be non−assignable (and perhaps non−assumable as well) if applicable non−bankruptcy law excuses the non−debtor party from accepting performance

from or rendering performance to an entity other than the debtor. [58] Patent law, copyright law and trademark law all constitute applicable non−bankruptcy law for purposes of Bankruptcy Code section 365(c). Additionally, the casting of a license agreement as exclusive or non−exclusive may play a key role in determining whether such license may be assigned (or even assumed). [59] The majority of courts have adopted a hypothetical plain meaning test for assumption. A minority of courts employ an actual test. Addressed below is (i) the tension between Bankruptcy Code sections 365(c)(1) and 365(f)(1) concerning assignment, (ii) alternative methods for transferring rights under intellectual property licenses and (iii) change of control provisions.

In evaluating the strength of a particular licensee, a licensor will usually examine the licensee's business reputation, years in operation, experience in a particular industry, key personnel, prior working relationship with the licensor, etc. A trademark holder, for example, may only be willing to license its mark to those entities that will preserve the integrity of the mark, and may require different terms with respect to royalty payments, quality controls, approvals of products using the mark, etc., depending on the identity of a particular licensee.

By the same token, an intellectual property license may impose continuing obligations on the licensor, such as the obligation to provide maintenance, service, or technology upgrades. [60] The licensee's ability to use the intellectual property or technology may be entirely dependent upon the licensor's performance of such obligations. If a licensor files for bankruptcy and thereafter assumes and assigns the license, the results could be disastrous for the licensee if the assignee is unable or unwilling to perform the licensor's obligations under the license. [61]

Bankruptcy Code section 365(c) expressly limits the power of a trustee to assume or assign an executory contract involving the granting of rights in intellectual property. Section 365(c) provides in pertinent part as follows:

The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance 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. . . . [62]

Accordingly, a license will be held to be non−assignable, without the consent of the non−debtor party, under section 365(c) of the Bankruptcy Code if "applicable law" excuses such non−debtor party from accepting performance from or rendering performance to an entity or person other than the debtor.

Applicable Non−Bankruptcy Law

Courts have uniformly recognized that federal patent, copyright and trademark laws and the common law related thereto are "applicable laws" that excuse a non−debtor party from rendering performance to or accepting performance from a third party pursuant to Bankruptcy Code section 365(c). [63] Accordingly, section 365(c) of the Bankruptcy Code may prohibit the assignment − and, as discussed below, in some cases, even the assumption − of intellectual property licenses without the consent of the non−debtor party. [64] Because patents, copyrights and trademarks constitute separate bodies of applicable non−bankruptcy law for purposes of Bankruptcy Code section 365(c), each of these types of intellectual property is examined, in turn, below. The classification of a particular license as exclusive or non−exclusive may also be determinative with respect to the permissibility of assumption and/or assignment.

a. Patent

Section 101 of title 35 of the United States Code (the "Patent Act") sets forth the following definition of patentable inventions:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title. [65]

The primary tenet of the Patent Act and federal patent policy is that the patent holder has the right to make, use and sell the patented technology to the exclusion of all others − except with permission − during the effective period of the patent. [66]

Patent licenses may be exclusive or non−exclusive. Assignment of a non−exclusive patent license without the consent of the patent holder is inconsistent with federal patent policy, which has been described as follows:

The fundamental policy of the patent system is to "encourag[e] the creation and disclosure of new, useful, and non−obvious advances in technology and design" by granting the inventor the reward of "the exclusive right to practice the invention for a period of years." Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150−51, 109 S. Ct. 971, 977−78, 103 L.Ed.2d 118 (1989). Allowing free assignability . . . of nonexclusive 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. And while the patent holder could presumably control the absolute *number* of licenses in existence under a free−assignability regime, it would lose the very important ability to control the *identity* of its licensees. [67]

In view of this policy, the long−standing federal rule is that patent license agreements are personal to the licensee and not assignable unless expressly made so in the agreement. [68]

It is well established that a non−exclusive patent license may be assigned by the licensee only if the patent license expressly provides the right. [69] In the absence of express authorization, patent licenses are treated as personal to the license holder and, therefore, are not assignable. [70]

Because patent law makes non−exclusive patent licenses unassignable without the consent of the licensor, section 365(c) of the Bankruptcy Code prohibits the assignment, and perhaps even the assumption, [71] of non−exclusive patent licenses by the licensee without the consent of the non−debtor licensor. [72]

Section 365(c) of the Bankruptcy Code does not, however, preclude assumption and assignment of an *exclusive* patent license by the debtor−licensee without the consent of the licensor. Similarly, it appears that Bankruptcy Code section 365(c) does not bar assumption and assignment by a debtor−licensor of a non−exclusive patent license without the consent of a non−debtor licensee, provided that section 365(f)(2)(B) of the Bankruptcy Code's adequate assurance of future performance test is satisfied. The issue of whether, under section 365(c) of the Bankruptcy Code, a debtor−licensor may be prohibited from assuming and assigning an exclusive patent license without the consent of the non−debtor licensee does not appear to have been addressed by the relevant case law.

b. Copyright

Subject to certain limitations, section 106 of title 17 of the United States Code (the "Copyright Act") grants the owner of a copyright the exclusive right − *i.e.*, a limited monopoly − to exploit the copyrighted work for the life of the author plus seventy years. [73] Under section 102(a) of the Copyright Act:

Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Work of authorship include the following categories:

(1) literary works;

(2) musical works, including accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works;

(7) sound recordings; and

(8) architectural works. [74]

The purpose of granting a copyright owner a monopoly on exploitation of its copyright has been explained as follows:

[I]t 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. [75]

However, only the owner of a copyright can transfer rights to the copyrighted works. [76]

The Copyright Act distinguishes between exclusive and non−exclusive licenses with respect to effecting a "transfer of copyright ownership" under section 201 of the Copyright Act. [77] The term "transfer of copyright ownership" is defined by section 101 of the Copyright Act as follows:

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, *but not including a nonexclusive license*. [78]

Pursuant to section 201(d)(2) of the Copyright Act, the holder of an exclusive copyright is entitled, to the extent of such right, to all of the rights and remedies accorded to a copyright owner. [79] Such rights include the exclusive right to transfer. [80] A licensee under an exclusive copyright license would, therefore, have the right to transfer its exclusive right to do and to authorize the designated uses of the copyright (to the extent of the right granted under the license). [81] Based on the foregoing, an e−commerce debtor−licensee's exclusive copyright license is not implicated by section 365(c) of the Bankruptcy Code.

By contrast, as indicated above, the definition of "transfer of copyright ownership" set forth in section 101 of the Copyright Act expressly excludes non−exclusive licenses. [82] In connection with a non−exclusive copyright license, the licensor does not transfer the ownership of the copyright, or the rights and protections related thereto, to the licensee; ownership remains with the licensor. [83] And, under a non−exclusive license, the licensor retains the exclusive right to exploit or authorize third parties to exploit the copyrighted work. [84] Accordingly, a non−exclusive copyright license is personal to the licensee and cannot be assigned without the consent of the licensor. [85]

Because a non−debtor copyright licensor cannot be forced to accept performance from or render performance to a party other than the debtor, section 365(c) of the Bankruptcy Code prohibits the assignment − and, by its terms, even the assumption −− of a *non−exclusive* copyright license by the debtor−licensee without the consent of the non−debtor licensor. [86] It appears that section 365(c) of the Bankruptcy Code does not, however, prohibit a debtor−licensor from assuming and assigning a non−exclusive copyright license without the consent of a non−debtor licensee. The issue of whether a debtor−licensor might be barred from assuming and assigning an exclusive copyright license without the consent of the non−debtor licensee does not appear to have been addressed by the relevant case law.

c. Trademark

While section 365(c) of the Bankruptcy Code may excuse a non−debtor from accepting performance from or rendering performance to a party other than the debtor where executory contracts and licenses involving patents and copyrights are concerned, [87] the application of section 365(c) to trademark licenses is less clear.

Rather than encouraging invention or creation, the policy underlying trademark laws is preventing unfair competition and encouraging investment in good will (and quality control assurances). [88] Trademarks, [89] trade names [90] and service marks [91] may be entitled to protection under title 15 of the United States Code (the "Lanham Act") and state

law. Registration of a trademark with the Patent and Trademark Office ("PTO") is constructive notice of a registrant's claim of ownership on such mark. [92]

The value of a trademark is derived, in part, from consumer recognition (*i.e.* consumer's ability to identify the source of goods and services based on the mark) and "good will" (good reputation, favor which business has won from the public, secured patronage, favorable consideration of goods or services provided, expectation of continued patronage, etc.) associated with such mark. [93] Developing such consumer recognition and good will frequently requires an investment of time and resources (*e.g.*, quality assurances controls, advertising, customer service, etc.). Unauthorized use of a trademark not only permits a third party to benefit unfairly from the trademark holder's labors and investment, it also puts the good will and consumer recognition associated with the mark in jeopardy because the third party may not maintain the standards associated with the mark. [94]

In order to protect the value of its trademark, a registered trademark holder may commence a civil action against any person who, *without the consent of the registrant*, attempts to do as follows:

use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services, on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive;

reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles, or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution or advertising of any goods or services, on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive. [95]

The rights of a trademark holder regarding control over the use of its mark are limited (unlike the rights of a patent or copyright holder in the statutorily created monopoly for the effective period of its patent or copyright). [96] In contrast to patent and copyright law, unauthorized use of a trademark is not necessarily infringement. [97] Rather, use of a mark without the consent of the holder will constitute infringement only if such use is likely to confuse, cause mistakes by, or deceive consumers. [98] Assignment of a trademark license without the consent of the trademark holder is not necessarily "likely to cause confusion, or to cause mistake, or to deceive" because the assignee's use of the license will be subject to the same limitations and controls as the assignor's. [99]

Trademark law would not force a trademark holder to accept performance that is either outside of the scope of the license (*i.e.* infringement) or in violation of quality or production standards/provisions. [100] But, section 365(c) of the Bankruptcy Code will not necessarily excuse a trademark holder, in the absence of a contract provision barring assignment of the trademark, from accepting performance from or rendering performance to a party other than the debtor in accordance with the terms of a license. Hence, a number of courts have permitted trademark licenses to be assumed or assigned. [101]

In light of the possibility that trademark licenses could be outside the protection of section 365(c) of the Bankruptcy Code (*i.e.* that a trademark license could be assigned without the consent of the trademark holder), the onus is on the trademark licensor to protect itself through careful drafting of the license. The rights conferred under a trademark license should be narrowly drawn and clearly delineated. In addition, to protect the subject trademark, the license should incorporate quality control provisions and mechanisms for enforcing such standards. The trademark holder can then protect the value of its mark by closely policing the performance of the licensee and any assignee under the contract and aggressively prosecuting any trademark infringement (*i.e.* uses outside the scope of the license) or breach of quality assurance provisions.

If the trademark holder can demonstrate "lack of adequate protection", the holder can seek relief from the automatic stay in order to terminate the license. [102] Courts will deny relief, however, if the holder fails to demonstrate that the motion for relief is really motivated by concerns about quality and compliance. A holder's motivation will be called into question if the holder failed to aggressively police and enforce quality controls, to expeditiously take action against the debtor for non−compliance (*e.g.*, by seeking relief from stay), or to document the holder's consistent exercise of its control over quality and use. [103]

Hypothetical Test and Plain Meaning of Section 365(c) of the Bankruptcy Code Bar Assumption of Any Non−Assignable Intellectual Property License

Section 365(c) of the Bankruptcy Code prohibits a trustee from assuming an executory contract if applicable non−bankruptcy law excuses the non−debtor party to such contract from accepting performance from or rendering performing to an entity other than the debtor or debtor in possession. The majority of courts that have addressed the issue of whether section 365(c) should be construed as barring assumption even when no assignment is contemplated, including the United States Courts of Appeals for the Third, Ninth and Eleventh Circuits, have concluded that the literal language of section 365(c) of the Bankruptcy Code establishes the following 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. [104]

Application of the hypothetical test may effectively strip a debtor in possession of its right to assume and, hence, to assign an intellectual property license because, as a matter of non−bankruptcy law, such license cannot be assigned to a hypothetical third party without the non−debtor party's consent.

Although courts have questioned the policy of prohibiting the assumption of a non−assignable license in a case where assignment is not even contemplated, they have applied the plain meaning rule of statutory interpretation [105] and have held that policy arguments do not displace the plain language of Bankruptcy Code section 365(c) or "justify a judicial rewrite." [106]

Rejection of Plain Meaning: Actual Test Prohibits Assumption Only Where Assignment Is Actually Contemplated

A minority of courts, including the United States Court of Appeals for the First Circuit, have rejected the plain meaning of section 365(c) of the Bankruptcy Code (and the hypothetical test dictated thereby) and adopted a pragmatic "actual test." The actual test asks whether or not the non−debtor party would actually be forced to accept performance under its executory contract from someone other than the debtor party with whom it originally contracted − *i.e.* a test of whether there would actually be an assignment. [107] Under the actual test, a court's determination with respect to the permissibility of assumption is guided by:

a case by case inquiry into the actual consequences − to the nondebtor party − of permitting these executory contracts to be performed by the debtor party following the institution of the bankruptcy proceedings. In other words, where a debtor or debtor in possession bears the burden of performance under an executory contract, the nondebtor party to whom performance is due must make an individualized showing that it would not receive the "full benefit of [its] bargain" were an entity to be substituted for the debtor from whom performance is due. [108]

Under the actual test, therefore, Bankruptcy Code section 365(c) only prohibits assumption and assignment by a debtor in possession.

By applying the actual test, courts avoid prohibiting assumption in cases where prepetition and post−petition performance under the contract would be identical (and, consequently, assumption would not harm the non−debtor party). The actual test has been sharply criticized though, because it conflicts with the plain meaning of section 365(c) of the Bankruptcy Code. [109]

4. Conflict Between Bankruptcy Code Sections 365(c)(1) and (f)

Some courts have found that conflict exists between the language of Bankruptcy Code sections 365(c)(1) and 365(f). [110] Bankruptcy Code section 365(c) requires the consent of the non−debtor party to effectuate an assignment of an executory contract where "applicable law" excuses such party from rendering or accepting performance from a party other than the debtor. Bankruptcy Code section 365(f) permits assignment of an executory contract notwithstanding provisions in "applicable law" that prohibit, restrict, or condition the assignment of such contract.

The majority of courts have reconciled the apparent conflict between sections 365(c)(1) and 365(f) by concluding that "each sub−section refers to 'applicable law' of markedly different scope." [111] Whereas section 365(f)(1) of the Bankruptcy Code trumps laws that as a general matter prohibit, restrict or condition the assignment of executory contracts, Bankruptcy Code section 365(c)(1) carves out a limited exception to the broad rule of section 365(f)(1) − where applicable law does not merely recite a general ban on assignment, but instead more specifically excuses a party from accepting performance from or rendering performance to an entity because the identity of the contracting party is material to the agreement. [112]

5. Alternative Methods for Transferring Rights Under Intellectual Property Licenses

Even if section 365(c) of the Bankruptcy Code prohibits assumption and assignment, it may still be possible to transfer an intellectual property license through a plan of reorganization or through a sale of all of the stock of the debtor−licensee. In *Institut Pasteur v. Cambridge Biotech Corp.*, [113] the First Circuit held that federal common law barring assignment of patent licenses did not preclude assumption by a debtor in possession even though the debtor's stock had been sold to a competitor of the patent holder; the patent license technically remained with the original contracting parties. [114] In that case, the cross−licenses in question included provisions which gave the debtor, but not the other party, the unilateral right to terminate any sublicense extended by the creditor to a competitor in the event that there was change of control of such competitor. However, the license included no corresponding change of control provisions which would permit the creditor to terminate in the event that there was a change of control of the debtor. [115]

6. Drafting Issues: Change of Control Provisions in Intellectual Property Licenses

Depending upon the circumstances, it may be advantageous to draft license agreements for e−commerce and dot−com entities to contain change of control provisions that are tied to particular individuals being in control (*i.e.* the right to use the intellectual property terminates if a particular CEO is not in control). As the decision in *Institut Pasteur v. Cambridge Biotech Corp.*, [116] indicates, the absence of such provisions may enable a debtor to effectuate, without the consent of the non−debtor party, an indirect transfer of the intellectual property license even though a direct transfer (*i.e.* assignment) would not be permitted without the consent of the non−debtor party. [117]

C. Section 365(e) of the Bankruptcy Code: Enforceability of Ipso Facto Clauses in Intellectual Property Licenses

Section 365(e)(1) of the Bankruptcy Code generally nullifies "ipso facto" clauses that provide for automatic termination of an executory contract upon the commencement of a bankruptcy case or the occurrence of certain bankruptcy related events. [118] As acknowledged by relevant judicial authorities, "[section] 365(e)(2) revives "ipso facto" clauses in precisely the same executory contracts that fall within the scope of section 365(c)(1)." [119] Section 365(e)(2) provides in pertinent part as follows:

(A) Paragraph (1) of [section 365(e)] does not apply to 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 −−

(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; [120]

The similarity between the statutory language of Bankruptcy Code section 365(c)(1) and section 365(e)(2)(A) is unmistakable. [121] As was discussed in Section II(B)(1), intellectual property law is "applicable law" that excuses the non−debtor party from accepting performance from or rendering performance to the trustee or an assignee.

Despite the plain language of section 365(e)(2)(A) of the Bankruptcy Code (which, like that of section 365(c), calls for courts to apply a hypothetical test), a number of courts have concluded that Congress intended section 365(e)(2) to permit termination of non−assignable contracts only when assignment would actually occur. [122] Such courts have

construed the relationship between section 365(c) and section 365(e)(1) of the Bankruptcy Code as follows:

If the contract is neither assumable nor assignable under § 365(c), invalidating the ipso facto clause serves no purpose. Where the contract may be assumed, because assumption by a trustee on behalf of the estate results in the debtor's performance of the contract in a chapter 11 case, invalidation of ipso facto clauses should be the rule, however . . . . [123]

Under the actual test, if assignment of an executory contract is not in fact contemplated and non−bankruptcy law does not prohibit assumption of such contract, courts will generally not find that an ipso facto clause is enforceable under section 365(e)(2) of the Bankruptcy Code. [124]

A non−debtor party should seek, and await, a determination by a bankruptcy court on relief from the automatic stay before acting upon the belief that an executory contract cannot be assumed or assigned on behalf of the bankruptcy estate of a dot−com debtor (and that such contract, therefore, is terminable post−petition pursuant to an ipso facto clause). Courts have generally held that the automatic stay is applicable to all attempts by a non−debtor to terminate an executory contract or unexpired lease −− including executory contracts, such as intellectual property licenses of a dot−com debtor −− for which the Bankruptcy Code expressly permits post−petition termination. [125]

D. Section 365(n) of the Bankruptcy Code: Rights of Non−Debtor Licensee Upon Rejection

Section 365(n) of the Bankruptcy Code provides non−debtor intellectual property licensees with certain rights and protections when a trustee rejects an executory contract under which the debtor is a licensor of an intellectual property. [126] Congress enacted Bankruptcy Code section 365(n) to alleviate the harsh effects of the Fourth Circuit's decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.* (*In re Richmond Metal Finishers, Inc.*). [127] *In re Richmond Metal Finishers, Inc.* permitted the debtor−licensor to reject a technology licensing agreement and terminate the licensee's right to use the license. The licensee was left with a mere rejection damage claim. [128] The first part of the discussion of section 365(n) below examines the relative rights and obligations of the non−debtor licensee and the debtor−licensor under section 365(n) of the Bankruptcy Code following rejection of an executory contract under which the debtor is a licensor of an intellectual property right. The second part of the discussion below centers on the meaning of the term "intellectual property" as used in sections 365(n) and 101(35A) of the Bankruptcy Code.

1. Balance Struck Under Section 365(n) of the Bankruptcy Code

Section 365(n) of the Bankruptcy Code was designed to strike an equitable balance between protecting the interests of the non−debtor licensee with regard to continued use of the intellectual property and permitting the debtor−licensor to avoid affirmative obligations that burden its bankruptcy estate. [129] The Ninth Circuit has explained the balance as follows:

Section 365(n) has struck a fair balance between the interests of the bankrupt and the interests of a licensee of the bankrupt's intellectual property. The bankrupt cannot terminate and strip the licensee of rights the licensee has bargained for. The licensee cannot retain the use of those rights without paying for them. It is essential to the balance struck that the payments due for the use of the intellectual property should be analyzed as "royalties," required by the statute itself to be met by the licensee who is enjoying the benefit of the bankrupt's patents, proprietary property and technology. [130]

Recognizing that rejection of an intellectual property or technology agreement by the debtor−licensor could devastate the licensee's business by stripping it of rights which are essential to its operation, Bankruptcy Code section 365(n) seeks to protect the licensee without unduly burdening the debtor−licensor's estate.

Pursuant to Bankruptcy Code section 365(n), [131] if the trustee rejects an executory contract under which the debtor licenses intellectual property rights, [132] the licensee under such contract may elect:

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for (i) the duration of such contract; and (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law. [133]

Bankruptcy Code section 365(n) thus provides a non−debtor intellectual property or technology licensee two options in the event that a licensor seeks to reject its license. The first option is for the non−debtor licensee to treat the license as terminated. [134] The non−debtor licensee would then be in the same position as any other party whose contract was rejected under section 365(a) of the Bankruptcy Code, *i.e.* the licensee would be a general unsecured creditor with a claim under sections 365(g) and 502(g) of the Bankruptcy Code for rejection damages. [135]

Alternatively, the intellectual property or technology licensee could elect to retain its rights under the rejected license and any other supplementary agreement. [136] The licensee could retain its rights, enforce exclusivity provisions and exercise options. If the licensee elects to retain its rights to use of the intellectual property or technology pursuant to section 365(n)(1)(B) of the Bankruptcy Code, the licensor is required to: (1) provide the licensee with access to the subject intellectual property or technology; (2) not to interfere with the exercise of licensee's rights under the license and any supplementary agreement; and (3) to comply with any exclusivity provision in the license agreements. [137]

If the licensee elects to retain its rights to use intellectual property after rejection by the debtor−licensor, the licensee must pay all future "royalties" due to the licensor under the contract, and must waive all rights to set off [138] or any claim for administrative expenses under Bankruptcy Code section 503(b). [139] The term "royalty payments" is not defined in the Bankruptcy Code. The legislative history to section 365(n) is instructive in this regard:

It is important that courts, in construing the term "royalty" used in this subsection, and in deciding what payments are royalty payments, look to the substance of the transaction and not the label. The underlying nature of the payment must be considered. For examples, payments based upon the use of intellectual property or on a percentage of sales of end products that incorporate or are derived from the intellectual property should be treated as royalty payments. [140]

In *Encino Business Management, Inc. v. Prize Frize, Inc.* (*In re Prize Frize, Inc.*), [141] the Ninth Circuit Bankruptcy Appellate Panel ("BAP") concluded that the term "royalty payments" must be construed broadly to preserve the balance of interests struck in section 365(n) of the Bankruptcy Code. [142]

The legislative history reflects that this term encompasses any payment for use of intellectual property, no matter how that payment is named in the agreement. Under such a definition, the fact that the payments are called license fees or the fact that payments are based upon a flat fee rather than a percentage of sales will not preclude their treatment of [*sic*] royalty payments for purposes of Section 365(n)(2). If this were not the case, licensees would be allowed to continue to use property of the estate without compensating the estate simply because they labeled the payments license fees or structure the payments on a flat fee rather than a percentage basis. [143]

In affirming the judgment of the BAP, the Ninth Circuit noted that "the parties by their choice of names cannot alter the underlying reality nor change the balance that the Bankruptcy Code has struck." [144] Because the issue was raised for the first time on appeal, however, the Ninth Circuit did not address whether a licensee who elects to retain its rights under an intellectual property license should be required to pay for obligations of the debtor−licensor which are no longer being performed. [145]

Upon written request of the licensee, the trustee must, to the extent provided in the license or supplementary agreement, provide to the licensee any intellectual property held by the trustee. [146]

Case law demonstrates that section 365(n)(1)(B) of the Bankruptcy Code limits the protection afforded to the licensee's section 365(n) intellectual property rights to those that existed immediately before the dot−com bankruptcy case commenced. [147] Bankruptcy Code section 365(n) permits the licensee to enforce only the passive obligations of the licensor− *i.e.*, forbearing from suing for infringement and complying with exclusivity provisions. The licensee

cannot require specific performance of any other obligations under the license, such as a licensor's duty to provide service, maintenance, or future upgrades and improvements. [148] This may be significant in cases where the license grants the licensee rights to use existing and subsequently created or developed intellectual property because section 365(n) of the Bankruptcy Code may not cover works which are partially completed or in the process of creation on the petition date (*e.g.*, a book being made into web movie; upgrades of software programs; new copyrighted content for a web page, etc.). In view of the foregoing, section 365(n) of the Bankruptcy Code permits a licensee to retain its rights to intellectual property which existed prepetition but does not permit post−rejection enforcement of the debtor−licensor's on−going obligations to update or improve such intellectual property. [149]

2. Protection Under Bankruptcy Code Section 365(n) Limited to Rights Under Executory "Intellectual Property" License

The protection afforded non−debtor licensees under Bankruptcy Code section 365(n) is limited to licensees of "intellectual property". The term intellectual property is defined in section 101(35A) of Bankruptcy Code as follows:

(A) trade secret;

(B) invention, process, design, or plant protected under title 35;

(C) patent application;

(D) plant variety;

(E) work of authorship protected under title 17; or

(F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law. [150]

While trademarks and trade names are generally viewed as intellectual property, they are conspicuously absent from the Bankruptcy Code's definition of "intellectual property".

The Second Circuit has indicated in dicta that Congress specifically excluded trademarks and trade names from the protection provided to other intellectual property licenses. [151] The legislative history suggests an alternative rationale for the exclusion of trademarks and trade names from the ambit of section 365(n) protection:

[T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by the debtor−licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others, *see, e.g., In re Chipwich, Inc.*, 54 Bankr. Rep 427 (Bankr. S.D.N.Y. 1985), such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts. [152]

Regardless of the rationale, it is clear that a trademark licensee cannot rely exclusively on section 365(n) of the Bankruptcy Code to prevent rejection by a trustee from effectively stripping it of its rights under the trademark licensing agreement. [153]

Few cases have addressed the effect of section 365(n) of the Bankruptcy Code on licenses which convey rights relating to both trademarks and intellectual property (as defined by the Bankruptcy Code). In *In re Ron Matusalem & Matsuda of Florida, Inc.*, [154] the issue of whether the non−debtor licensee was to continue to retain an interest in the debtor−licensor's trademark arose as a result of the debtor−licensor's rejection of a franchise agreement which conveyed to the non−debtor licensee the exclusive right within its territorial area to the secret process and formulas used to make rum products and the exclusive right to manufacture and sell such products within its territorial area. [155] While the United States Bankruptcy Court for the Southern District of Florida concluded that the licensor's rejection would not deprive the non−debtor licensee of its rights under the franchise agreement, it did not address the fact that

the franchise agreement at issue related not only to trade secrets, which are subject to protection under sections 101(35A) and 365(n) of the Bankruptcy Code, but also to trademarks, which are not plainly subject to such protection. [156]

III. Sale Of Intellectual Property Assets Under Section 363 Of The Bankruptcy Code

The intellectual property assets held by a dot−com debtor may be the most valuable property in its bankruptcy estate. Pursuant to the terms of section 363 of the Bankruptcy Code, intellectual property assets which are owned outright by an e−commerce debtor may be sold to a third party for the benefit of the debtor's estate. In addition, if an executory contract is deemed to have become non−executory, the rights of the debtor under such contract may be sold pursuant to section 363 of the Bankruptcy Code. [157]

A full−blown discussion of the issues related to the sale of assets in a dot−com bankruptcy is beyond the scope of this Article. As the recent controversy in the chapter 11 case of *Toysmart.com, L.L.C.* confirms, the introduction of Internet based businesses (and their creditors and customers) into the bankruptcy process will not always go smoothly. Toysmart's attempt to sell customer information and customer lists, its most valuable asset, despite the privacy policy barring disclosure that the company posted on its web page, pit well settled bankruptcy principles favoring the maximization of recovery to creditors against deeply rooted privacy and fairness convictions. While Toysmart withdrew its request to sell its customer information pursuant to a settlement it reached with the Federal Trade Commission, the ramifications of its attempt to effectuate such a sale are still unfolding. Future developments with respect to the sale of intellectual property assets in dot−com bankruptcies may involve the use of e−commerce and bankruptcy court auctions, the ability of such assets to be sold free and clear of liens under Bankruptcy Code section 363(f), and issues with respect to good faith under Bankruptcy Code section 363(m).

Conclusion

The unique feature of dot−com bankruptcies is that the debtor's assets and contracts are likely to be focused heavily on intellectual property rights. Such intellectual property assets could very well be the most valuable part of the e−commerce debtor's business. In a typical chapter 11 case, a debtor or its trustee need rely only on the Bankruptcy Code and the Supremacy Clause of the Constitution to achieve its goals. In an e−commerce or dot−com bankruptcy case and its concomitant emphasis on intellectual property rights and assets, the e−commerce debtor, its creditors, investors and other parties in interest will need to focus on the provisions of and policies underlying the Patent Act, the Copyright Act, the Lanham Act and other intellectual property laws. Because the Bankruptcy Code and these statutes are parallel federal statutes, the Supremacy Clause does not dictate that the Bankruptcy Code provisions will govern the treatment of intellectual property rights and assets in a dot−com bankruptcy case. The challenge in connection with the e−commerce and dot−com bankruptcy cases will thus be to reconcile and harmonize the provisions of sections 363 and 365 and other relevant Bankruptcy Code sections with the applicable provisions of federal patent laws, copyright laws and trademark laws.

ADDENDUM

(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect −

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for −

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract −

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive −

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract

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FOOTNOTES:

[*] Madlyn Gleich Primoff is a partner and Erica G. Weinberger is an associate in the New York office of Paul, Hastings, Janofsky & Walker, LLP. The authors can be reached by E−MAIL at mprimoff@phjw.com. Back To Text

[1] See generally In re Collecting Concepts v. Diecast Marketing Innovations, No. 99−60268−T, 2000 Bankr. LEXIS 615, at *3, *5 (Bankr. E.D. Va. Feb. 28, 2000) (discussing executory contract of debtor who sold collectible toy cars through website, magazine, and direct solicitations.); Mechele Dickerson, Symposium: From Jeans to Genes: The Evolving Nature of Property of the Estate, 15 Bank. Dev. J. 285, 305 (1999) (arguing that "trustees have convinced courts that a debtor's interest in a domain name is an executory contract"); Robert P. Simons, Back to Earth From Cyberspace: Dealing With Business Failure of Internet Companies, 8 Nev. Law. 12, 14 (2000) (discussing how debtor's license to use another's technology can be executory contract). Back To Text

[2] See In re Collecting Concepts, 2000 Bankr. LEXIS 615, at *3, *5; Dickerson, supra note 1, at 305; Simons, supra note 1, at 14. Back To Text

[3] See 11 U.S.C. § 365; David Heroy and Erik Chalut, Current Developments in Intellectual Property Issues in Bankruptcy, 805 PLI/Comm 1055, 1057 (2000) (stating that "a trustee may assume an executory contract for its own use or assign it to a third party for a profit under the applicable provisions of § 365 of the Bankruptcy Code"); D.C. Toedt, Software and Database Licensing, 557 PLI/Pat 391, 413 (1999) (stating that § 365 "lets a bankruptcy trustee (a debtor−in−possession) decide whether the debtor will continue to be bound by its executory contracts and unexpired leases"). Back To Text

[4] See generally Catherine Hilborn Feng, What's in a Name, 22 Asian Bus. 25 (2000) (discussing domain name registration in Hong Kong); Seyamack Kouretchian, Web Development and Hosting, 223 N.Y.L.J. S6 (2000) (exploring web development contracts and webhosting agreements); Kelly Johnson, Cyberpiracy Claim, Bus. J. Sacramento, Mar. 31, 2000 at 3, (discussing Lanham Act and stating that domain names will be not be used to interfere with intellectual property rights of any third parties). Back To Text

[5] Any reference to a trustee herein shall be construed to include a debtor in possession. See 11 U.S.C. § 1107(a). Back To Text

[6] See Orion Pictures Corporation v. Showtime Networks, Inc. (In re Orion Pictures, Corp.), 4 F.3d 1095, 1098 (2d Cir. 1993); Medical Malpractice Ins. Assoc. v. Hirsch (In re Lavigne), 114 F.3d 379, 386 (2d Cir. 1997) (vacating and remanding motion to assume output contract because improper adversary proceeding on motion focused on improper context (quoting In re Orion Pictures Corp.); Novon Int'l v. Novamont S.P.A. (In re Novon Int'l, Inc.), No.

98−CV−0677E(F), 2000 U.S. Dist. LEXIS 5169, at *12−*13 (W.D.N.Y. March 31, 2000). Back To Text

[7] 11 U.S.C. § 365(a). Back To Text

[8] See In re Chicago Rock Island & Pac. R.R. Co., 860 F.2d 267, 272 (7th Cir. 1988) (stating that "trustee cannot accept the benefits of an executory contract without accepting the burdens as well"); Richmond Leasing Co. v. Capital Bank, N.A., 762 F.2d 1303, 1311 (5th Cir. 1985) (explaining that "the often−repeated statement that the debtor must accept the contract as a whole only means that the debtor cannot choose to accept the benefits of the contract and reject its burdens to the detriment of the other party of the agreement"); Rockland Center Assocs. v. TSW Stores of Nanuet, Inc. (In re TSW Stores of Nanuet, Inc.), 34 B.R. 299, 304 (Bankr. S.D.N.Y. 1983) (stating that executory contracts cannot be accepted or rejected in part). Back To Text

[9] See Richmond Leasing Co., 762 F.2d at 1311 (stating that debtors must accept contracts in toto and cannot choose to accept benefits while rejecting burdens to other contracting party's detriment). Back To Text

[10] The Countryman definition of, or material performance test for, executory contracts is as follows:

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 performance of the other.

Vern Countryman, Executory Contracts in Bankruptcy: Part I, 57 Minn. L. Rev. 439, 446 (1973). Back To Text

[11] S. Rep. No. 95−989, at 58 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 5844. See also NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523 n.6 (1984); Enterprise Energy Corp. v. United States (In re Columbia Gas Sys.), 50 F.3d 233, 239 (3d Cir. 1995); Commercial Union Ins. Co. v. Texscan Corp. (In re Texscan Corp.), 976 F.2d 1269, 1271−72 (9th Cir. 1992); Sharon Steel Corp. v. National Fuel Distrib. Corp., 872 F.2d 36, 39 (3d Cir. 1989); Collingwood Grain, Inc. v. Coast Trading Co. (In re Coast Trading Co.), 744 F.2d 686, 692 (9th Cir. 1984); Carlson v. Farmers Home Admin. (In re Newcomb), 744 F.2d 621, 624 (8th Cir. 1984); Jenson v. Continental Fin. Corp., 591 F.2d 477, 481 (8th Cir. 1979); Northwest Airlines, Inc. v. Klinger (In re Knutson), 563 F.2d 916, 917 (8th Cir. 1977). Back To Text

[12] See 3 Collier on Bankruptcy ¶ 365.02[1], at 365−18 (Lawrence P. King et al. eds., 15th ed. Rev. 2000). Back To Text

[13] See In re C & S Grain Co., 47 F.3d 233, 237 (7th Cir. 1995); accord In re Adler, Coleman Clearing Corp., 247 B.R. 51 (Bankr. S.D.N.Y. 1999); see also In re Streets & Beard Farm Partnership, 882 F.2d 233, 235 (7th Cir. 1989) (requiring significant unperformed obligations of both sides for an executory contract). Back To Text

[14] See Otto Preminger Films, Ltd. v. Qintex Entertainment, Inc. (In re Qintex Entertainment, Inc.), 950 F.2d 1492, 1495 (9th Cir. 1991) (stating that even if only one party has obligation there is still executory contract if obligation is material). Some courts and commentators have advocated using a functional approach (rather than the Countryman or material breach test) to determine whether a contract is executory. Under the functional approach, a contract is executory if at least one party has a continuing material performance obligation. See Sipes v. Atlantic Gulf Communities Corp. (In re General Dev. Corp.), 84 F.3d 1364, 1374 (11th Cir. 1996); see also Jay Lawrence Westbrook, A Functional Analysis Of Executory Contracts, 74 Minn. L. Rev. 227, 243−44 (1989). Application of the functional approach increases the likelihood of contracts being deemed executory because ongoing performance obligations need only be found in (or read into) the contract. Back To Text

[15] See Richmond Leasing Co. v. Capital Bank, 762 F.2d 1303, 1308−09 (5th Cir. 1985) (examining bad faith of bankrupt's decision); Lubrizol Enter. Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1047 (4th Cir. 1985) (deciding whether lease assumption was "a proper exercise of business judgement," by examining facts). Back To Text

[16] See Pieco, Inc. v. Atlantic Computer Sys., Inc., 173 B.R. 844, 858 (S.D.N.Y. 1994) (stating that "Pieco is entitled to findings regarding whether conditions precedent to assumption of contracts were satsified under § 365(b)(1) of the Code"). Back To Text

[17] 11 U.S.C. § 365(b)(1) (2000). Back To Text

[18] Even if the requirements of § 365(b)(1) can be satisfied, the trustee's authority to assume or assign an executory contracts is not absolute. See id. § 365(c), (e) (2000); see also discussion infra Section II. Back To Text

[19] See S. Rep. No. 95−989, at 59 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 5845; see also Eastern Air Lines, Inc. v. Insurance Co. of Penn. (In re Ionoshpere Clubs, Inc.), 85 F.3d 992, 999 (2d Cir. 1999) (arguing that Congress intended to ensure benefit of bargain); In re Superior Toy & Mfg. Co., 78 F.3d 1169 (7th Cir. 1996) (discussing congressional intent and noting that "decise[ness]" of statutory language). Back To Text

[20] See U.S.C. § 365(f)(2) (2000). Back To Text

[21] Even if the requirements of § 365(f)(2) can be satisfied, the trustee's authority to assign an executory contract, like assumption, is not absolute. The trustee's power is also subject to the limitations imposed by Bankruptcy Code sections 365(c) and 365 (e). See id. §§ 365(c), 365 (e); see also discussion infra Section II. Back To Text

[22] See 3 Collier, supra note 12, ¶ 365.08[1], at 365−69 n.3 (citing In re C & S Grain Co., Inc., 47 F.3d 233 (7th Cir. 1995)). See, e.g., Richard Lieb, The Interrelationship of Trademark Law and Bankruptcy Law, 64 Am. Bankr. L.J. 1, 9 (1990) (exploring § 365(f)'s requirement of adequate assurances). Back To Text

[23] See 11 U.S.C. § 365(k) (2000) (stating that "[a]ssignment by the trustee to an entity of a contract or lease assumed under this section relieves the trustee and the estate from any liability for any breach of such contract or lease occurring after such assignment"); In re Dartmouth Audio, Inc., 42 B.R. 871, 877 (Bankr. D.N.H. 1984) (stating that "[i]t is not possible under § 365 of the Bankruptcy Code to simply 'sell' a lease or executory contract; [i]t must first be assumed, and then assigned, with a showing of adequate assurance of future performance"). Back To Text

[24] See Four B. Corp. v. Food Barn Stores, Inc. (In re Food Barn Stores, Inc.), 107 F.3d 558, 562 (8th Cir. 1997) (stating that "the Code is conspicuously silent on what suffices as 'adequate assurance of future performance"); EBG Midtown South Corp. v. McLaren/Hart Envtl. Eng'g Corp. (In re Sanshoe Worldwide Corp.), 139 B.R. 585, 592 (S.D.N.Y. 1992) (stating that "[t]he Bankruptcy Code does not define 'adequate assurance'"). But see 11 U.S.C. § 365(b)(3) (2000) (enumerating requirements for adequate assurance of future performance of a shopping center lease). Back To Text

[25] See In re Sanshoe Worldwide Corp., 139 B.R. at 592 (stating that "upon examination of the legislative history, the courts have concluded that 'Congress intended that the words adequate assurance be given a practical pragmatic construction . . . to be determined under the facts of each particular case") (citing In re Bygaph, Inc., 56 B.R. 596, 605 (Bankr. S.D.N.Y. 1986)); see also In re Natco Indus., Inc., 54 B.R. 436, 440 (Bankr. S.D.N.Y. 1985) (stating same). Back To Text

[26] In re Claremont Acquisition Corp., 186 B.R. 977, 989 (C.D. Cal. 1985); see also Pacesetter Motors, Inc. v. Nissan Motor Corp., 913 F. Supp. 174, 179 (W.D.N.Y. 1996) (stating that "[w]ithholding consent must be supported by substantial evidence showing that the proposed buyer is materially deficient in one or more appropriate, performance related criteria") (citing In re Van Ness Auto Plaza, Inc., 120 B.R. 545, 546 (Bankr. N.D. Cal. 1990)). Back To Text

[27] See 11 U.S.C § 365(a) (2000) (stating that "the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor"); In re General Dev. Corp., 84 F.3d 1364, 1373 (11th Cir. 1996) (agreeing with bankruptcy court's analysis in finding Homesite Purchase Agreement at issue in case was executory contract subject to rejection under section 365 of the Bankruptcy Code); In re Fund Raiser Prod. Co., Inc., No. 95−1353, 1996 U.S. Dist. LEXIS 12984, at *3 (E.D. Pa. Aug. 27, 1996) (stating that "[s]ection 365(a) of the Bankruptcy Code empowers the trustee to reject any executory contract … of the debtor") (internal quotations

omitted). Back To Text

[28] See supra note 15 and accompanying text (noting same). Back To Text

[29] See 11 U.S.C. § 365(g)(1) (2000).

[T]he rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease (1) if such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12 or 13 of this title immediately before the date of the filing of the petition.

Id. See also Sharon Steel Corp. v. National Fuel Gas Distrib. Corp., 872 F.2d 36, 38 (3d. Cir. 1989) (stating that "under Bankruptcy Code § 365 (g)(1), the effective date of the rejection should be the date immediately prior to the filing of the bankruptcy petition"). See generally In re California Steel Co., 24 B.R. 185 (Bankr. N.D. Ill. 1982). Back To Text

[30] See 11 U.S.C. § 502(g) (2000).

A claim arising from the rejection, under § 365 of this title or under a plan under chapter 9, 11, 12, or 13 of this title, of an executory contract or unexpired lease of the debtor that has not been assumed shall be determined, and shall be allowed under subsection (a), (b), or (c) of this section or disallowed under subsection (d) or (e) of this section, the same as if such claim had arisen before the date of the filing of the petition.

Id. See also NLRB v. Bildisco & Bildisco, 465 U.S. 513, 530 (1984) (stating that "[t]he Bankruptcy Code specifies that the rejection of an executory contract which had not been assumed constitutes a breach of the contract which relates back to the date immediately preceding the filing of a petition in bankruptcy."); Nostas Assocs. v. Costich (In re Klein Sleep Prods., Inc.), 78 F.3d 18, 26 (2d Cir. 1996); (noting that according to Bankruptcy Code's legislative history, purpose of § 365(b) is to "treat claims from unassumed leases as prepetition claims") (internal quotations omitted); Aslan v. Sycamore Inv. Co. (In re Aslan), 909 F.2d 367, 371 (9th Cir. 1990) (noting that Senate and House reports leading to enactment of § 365(b) stated that the section "defines the time as of which a rejection of an executory contract . . . constitutes a breach of the contract . . . [g]enerally, is as the date immediately preceding the date of the petition; [t]he purpose is to treat rejection claims as prepetition claims") (emphasis added). See generally H.R. Rep. No. 95−595, at 349 (1977), reprinted in 1978 U.S.C.C.A.N. 5963, 6305; S. Rep. No. 95−989, at 63 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 5849; 3 Collier, supra note 12, ¶ 365.09[1], at 365−73. Back To Text

[31] See 11 U.S.C. § 365(g)(2)(A) (2000); see also In re Klein Sleep Prods. Inc., 78 F.3d 18, 26 (2d Cir. 1996) (stating that if debtor rejects assumed lease, breach occurs whenever lease is later rejected); Laura B. Bartell, Revisiting Rejection: Secured Party Interests in Leases and Executory Contracts, 103 Dick. L. Rev. 497, 499 n.6 (1999) (noting same). Back To Text

[32] See In re Klein Sleep Prods., Inc., 78 F.3d at 26 (reasoning that "breach of contract committed by the trustee or debtor−in−possession while administering the estate − gives rise to a debt entitled to the same administrative expense priority"). Back To Text

[33] See Robert L. Tamietti, Technology Licenses under the Bankruptcy Code: A Licensee's Minefield, 62 Am. Bankr. L.J. 295, 296 (1988) (stating that "[l]icenses of patents, copyrights, and trade secrets have helped fuel the development of the computer industry"). Back To Text

[34] See 11 U.S.C. § 365(n) (2000); see also David M. Jenkins, Licenses, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy, 25 John Marshall L. Rev. 143, 146−47 (1991) (stating that "[u]nder § 365 . . . a Bankruptcy Debtor can reject executory contracts, subject to court approval; [a] debtor that has granted another the right to use its trademark can consequently reject the executory license agreement"); id. at 148 (stating that "[u]ntil 1988, any debtor − licensor of intellectual property could reject its license agreements"); id. (relating that Congress amended Bankruptcy Code by passing Intellectual Property Bankruptcy Protection Act of 1988 ('IPBPA') to protect "specifically defined intellectual property licenses"). Back To Text

[35] See supra Section I. Back To Text

[36] See 11 U.S.C. § 365 (a) (stating that, "the trustee, subject to the courts approval, may assume or reject any executory contract or unexpired lease of the debtor"); Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (recognizing executory contract as "a contract . . . on which performance is due to some extent on both sides . . . and in which the obligations of both parties are so far unperformed that the failure of either party to complete performance would constitute a material breach and thus excuse the performance of the other") (internal quotations omitted); Wegner v. Murphy (In re Wegner), 839 F.2d 533, 536 (9th Cir. 1988) (same); Pacific Express Inc. v. Teknekron Infoswitch Corp., 780 F.2d 1482, 1487 (9th Cir. 1986) (same); Zenith Lab. v. Security Pac. Nat'l Trust Co. (In re Zenith Lab., Inc.), 104 B.R. 667, 672 (Bankr. D.N.J. 1989) (stating that "to constitute an executory contract, there must be some further performance to be rendered by each party so that such remaining obligations are bilateral in nature"); Richard Royce Collection, Ltd. v. New York City Shoes, Inc. (In re New York City Shoes Inc.), 84 B.R. 947, 960 (Bankr. E.D. Pa. 1988) (noting that trademark licensing agreement in question was executory contract in that contract was: (1) not terminated prepetition; (2) not fully performed by both sides, giving debtor right to assume or reject). Back To Text

[37] See supra note 36 and accompanying text. Back To Text

[38] See Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747 (9th Cir. 1999) (recognizing patent license as executory); Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489 (1st Cir. 1997) (concluding same); In re CFLC, Inc., 89 F.3d at 677 (noting same); In re Superior Toy & Mfg. Co., 78 F.3d 1169 (7th Cir. 1996) (holding same for trademark license); Novon Int'l, Inc. v. Novamont S.P.A. (In re Novon Int'l, Inc.), No. 98−CV−0677E(F), 2000 U.S. Dist. LEXIS 5169 (W.D.N.Y. March 31, 2000) (viewing patent license as executory); In re Access Beyond Tech., Inc., 237 B.R. 32 (Bankr. D. Del. 1999) (regarding same for patent license); In re Patient Educ. Media, Inc., 210 B.R. 237 (Bankr. S.D.N.Y. 1997) (recognizing same for copyright license); In re Specialty Foods Pittsburgh, Inc., 91 B.R. 364 (Bankr. W.D. Pa. 1988) (finding same for trademark license); Richard Royce Collection, Ltd. v. New York City Shoes, Inc. (In re New York City Shoes, Inc.), 84 B.R. 947 (Bankr. E.D. Pa. 1988) (concluding same). Back To Text

[39] See Microsoft Corp. v. DAK Indus., Inc. (In re DAK Indus., Inc.), 66 F.3d 1091, 1095 (9th Cir. 1995) (holding software agreement to be sale rather than intellectual property license); see also Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp., 143 B.R. 360, 374 (D. Md. 1992) ("license" agreement conveying patent rights, but reserving certain rights to the parties including the right of termination, is a grant of title and not an executory license agreement), aff'd, 8 F.3d 817 (4th Cir. 1993). Back To Text

[40] See Fenix Cattle Co. v. Silver (In re Select−A−Seat Corp.), 625 F.2d 290, 292 (9th Cir. 1980) (concluding that agreement to refrain from action makes licensing agreement executory where corporation was under obligation not to sell software to other parties); see also Andrews v. Riggs Nat'l Bank of Washington, D.C. (In re Andrews), 80 F.3d 906, 914−15 (4th Cir. 1996) (stating in dissent that "obligation[s] of a debtor to refrain from selling . . . under an exclusive licensing agreement made a contract executory as to the debtor notwithstanding the continuing obligation was only one of forbearance"). But see id. at 912 (noting that "[s]ignificant authority holds that an obligation to refrain from competition does not render a contract executory for the purposes of § 365"). Back To Text

[41] 237 B.R. 32 (Bankr. D. Del. 1999). Back To Text

[42] Id. at 43. Back To Text

[43] See In re Andrews, 80 F.3d at 914 (stating that "the contract was executory because of the unperformed continuing duty of forbearance . . . on the part of the licensor, as well as other contingent duties, and also the unperformed and continuing duty of accounting for and paying royalties for the life of the agreement") (internal quotations omitted); Encino Bus. Management, Inc. v. Prize Frize, Inc. (In re Prize Frize, Inc.), 32 F.3d 426, 428 (9th Cir. 1994) (stating that licensee could make election whether to retain its contractual rights for remainder of contract or to terminate contract); In re Constant Care Community Health Ctr., Inc., 99 B.R. 697, 702 (Bankr. D. Md. 1989) (noting Fourth Circuit's decision that contract for metal coating process technology was executory because debtor was to receive

royalties in exchange for promise not to use technology, in addition to responsibility to inform of any patent infringement suits.). Back To Text

[44] See Havel v. Kelsey−Hayes Co., 445 N.Y.S.2d 333, 335−36 (N.Y. App. Div. 1981) (asserting in exclusive license arrangement for purpose of licensee's exploitation, there is implicit obligation of exploitation by licensee); see also Wood v. Lucy, Lady Duff−Gordon, 222 N.Y. 88, 90−91 (1917) (stating that promise of reasonable efforts is implied where exclusive license arrangement exists); Wilson v. Mech. Orguinette Co., 170 N.Y. 542 (1902). Back To Text

[45] See Lubrizol Enters, Inc. v. Richmond Metal Finishers, Inc (In re Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1046 (4th Cir. 1985) (stating that contract is executory where remaining obligation is only forbearance); In re Select−A−Seat Corp., 625 F.2d at 292 (finding where failure of party to perform would constitute material breach, contract is executory); In re Access Beyond Tech., Inc., 237 B.R. at 44 (noting that "even though these sub−licensing obligations may be remote, that does not render the obligations non−executory"). Back To Text

[46] See Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 679 (9th Cir. 1996) (asserting non−exclusive patent license is personal and non−assignable); Gilson v. Republic of Ireland, 787 F.2d 655, 658 (D.C. Cir. 1986) (stating that non−exclusive licensee of patent does not have property interest); Sanofi v. Med−Tech Veterinarian Prod., Inc., 565 F. Supp. 931, 936 (D.N.J. 1983) (asserting that non−exclusive license gives mere privilege to licensee protecting him from infringement claim). Back To Text

[47] In re Independent Serv. Org. Antitrust Litig., 203 F.3d 1322, 1328 (Fed. Cir. 2000) (asserting that property right is transferred where exclusive license to copyright is granted); Ortho Pharm. Corp. v. Genetics Inst., Inc. 52 F.3d 1026, 1032 (Fed. Cir. 1995) (recognizing exclusive licensee's right to sue on patent); Wing v. Comm'r of Internal Revenue, 278 F.2d 656, 661 (8th Cir. 1960) (asserting that "[e]xclusive licenses to manufacture, use, and sell for the life of the patent, are considered to be 'sales or exchanges' because, in substantive effect, all 'right, title, and interest' in the patent property is transferred"). Back To Text

[48] Even if an exclusive license does not constitute a sale, it may nonetheless be non−executory if the only obligation it imposes on the licensor is forbearance from commencing suit for infringement because with an exclusive license, the licensor has been divested of the right to commence such suit. See Fawick v. Comm'r of Internal Revenue, 436 F.2d 655, 662 (6th Cir. 1971) (stating that courts have recognized exclusive license agreements in some instances that may constitute sale for tax purposes); Flanders v. United States, 172 F. Supp. 935, 945 (N.D. Cal. 1959) (recognizing that exclusive license agreement constitutes sales if all substantial rights therein are transferred to licensee). Back To Text

[49] Several courts have found that if a license does not transfer the right to exclude others from practicing the patented technology, the license does not convey an ownership interest, or exclusive right, in the patent. See In re Access Beyond Tech., Inc., 237 B.R. at 44 (citing Waterman v. Mackenzie, 138 U.S. 252, 255 (1891) (construing prior statute)). Accordingly, "a 'non−exclusive' grant of the right to make, use, and sell the patented invention, by its very terms, is not an assignment, but a mere naked license." id. at 44; see also Preload Enters., Inc. v. Pacific Bridge Co., 86 F. Supp. 976, 979 (D. Del. 1949) (noting that "if the rights conferred upon the alienee are not exclusive rights investing in him alone or in him jointly with the alienor, the monopoly is not transferred and the conveyance is a license") (quotations omitted). Back To Text

[50] 66 F.3d 1091, 1095 (9th Cir. 1995). See generally Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1538 (11th Cir. 1996) (stating that non−exclusive licenses may be granted orally or impliedly); R. Ready Prod., Inc. v. Cantrell, 85 F. Supp.2d 672, 684 (S.D. Tex. 2000) (stating that non−exclusive license holders in copyright lack standing to sue because they have no ownership interest). Back To Text

[51] In re DAK Indus., Inc., 66 F.3d at 1092−93. Back To Text

[52] Id.. at 1093. Back To Text

[53] Id.. Back To Text

[54] Id. at 1095. Back To Text

[55] Id. at 1095−96. Back To Text

[56] See generally Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 748 (9th Cir. 1999) (stating "[w]e are called upon to determine whether. . . a chapter 11 debtor in possession may assume certain nonexclusive patent licenses over a licensor's objection; [w]e conclude that the bankruptcy court erred in permitting the debtor in possession to assume the patent licenses in question"); Cloyd v. GRP Records (In re Cloyd), 238 B.R. 328, 332 (Bankr. E.D. Mich. 1999) (concluding that because the term executory is not specifically defined in Bankruptcy Code, trustees and courts must make a determination on a case−by−case basis); In re Szombathy, Nos. 94 B 15536, 95 A 01035, 1996 Bankr. LEXIS 888, at *25 (N.D. Ill. July 9, 1996) (stating that "[t]he Bankruptcy Code provides that intellectual property includes inventions, processes, and designs as well as patent applications") (citing 11 U.S.C. § 101(35A) (1994)). Back To Text

[57] See generally L.R.S.C. Co. v. Rickel Home Ctrs., Inc. (In re Rickel Home Ctrs., Inc.), 209 F.3d 291, 303 (3d Cir. 2000) (noting that § 363(m) governs sale of franchises; whereas, § 365 applies to particular mechanics of conveyance); In re Downtown Athletic Club of N.Y. City, No. M−47, 2000 U.S. Dist. LEXIS 7917, at *10 (S.D.N.Y. June 9, 2000) (noting that "[u]nder the Code, a debtor 'may sell property . . . free and clear of any interest in such property of an entity other than the estate' if, inter alia, 'such interest is in bona fide dispute'") (citing 11 U.S.C. § 363(f) (emphasis added)); In re Pease, 195 B.R. 431, 434 (Bankr. D. Neb. 1996) (stating that "the Bankruptcy Code gives the debtor broad authority to use, sell or lease property, and to assume executory contracts and leases as a matter of federal law, notwithstanding the rights of creditors under applicable non−bankruptcy laws"). Back To Text

[58] See generally Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 676 (9th Cir. 1996) (stating that under § 365(f) "[o]nce a contract has been assumed, the trustee can assign it"); Novon Int'l v. Novamont S.P.A. (In re Novon Int'l, Inc.), No. 98−CV−0677E(F), 2000 U.S. Dist. LEXIS 5169, at *12 (W.D.N.Y. March 31, 2000) (stating in patent case, license agreement generally is executory contract under § 365(n)(1)); In re Szombathy, 1996 Bankr. LEXIS 888, at *25 (noting that § 365(n) grants additional protections to licensees of intellectual property). Back To Text

[59] See generally Enzo Apa & Son, Inc. v. Geapag A.G., 134 F.3d 1090, 1093 (Fed. Cir. 1998) (stating that some exclusive licenses render licensee virtual assignee); In re CFLC, Inc., 89 F.3d at 679 (noting that non−exclusive patent license is personal and non−assignable); McNeilab, Inc. v. Scandipharm, Inc., No. 94−1508, 1996 U.S. App. LEXIS 19073, at *14 (Fed. Cir. July 31, 1996) (holding that "[w]e agree that there is no substantive difference between the property interests of an assignee and of an exclusive licensee who has been granted all substantial patent rights including the right to exclude the patentee"). Back To Text

[60] Cf. Terrell v. Albaugh (In re Terrell), 892 F.2d 469, 471 (6th Cir. 1989) (holding that bankruptcy court should determine whether one party's failure to perform its remaining obligations would give rise to "material breach" excusing performance by other party under applicable contract law); Lubrizol Enters, Inc. v. Richmond Metal Finishers, Inc (In re Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1045 (4th Cir. 1985) (holding that contract was executory as to each party since both debtor and corporation had continuing duties); Steven J. Wadyka, Jr., Executory Contracts and Unexpired Leases: Section 365, 3 Bankr. Dev. J. 217, 249−50 (1986) (relating that under § 365 (h) of Bankruptcy Code and in instance of lease, debtor/lessor's obligations to furnish utilities, services and supplies are described as incidental). Back To Text

[61] As was discussed above, § 365(k) of the Bankruptcy Code provides that the trustee and the debtor's bankruptcy estate are not liable for such post−assignment breaches. See 11 U.S.C. § 365 (k) (2000); see also Richard Royce Collection Ltd. v. New York City Shoes, Inc. (In re New York City Shoes, Inc.), 84 B.R. 947, 960 (Bankr. E.D. Pa. 1988) (finding that licensing agreement was "executory contract" where contract had not been fully performed on both sides); In re Chipwich Inc., 54 B.R. 427, 430 (Bankr. S.D.N.Y. 1985) (describing where debtor's license agreement with licensee were not executory as to both debtor and licensee where parties had continuing obligations). Back To Text

[62] 11 U.S.C. § 365(c) (2000). See also Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 750 (9th Cir. 1999) (stating that § 365(c)(1) by its terms "bars a debtor in possession from assuming an executory contract without the nondebtor's consent where applicable law precludes assignment of the contract to a third party"); In re Access Beyond Tech., Inc., 237 B.R. 32, 48 (Bankr. D. Del. 1999) (stating that "a debtor in possession may not assume an executory contract over the non debtor's objection if applicable law would bar assignment to a hypothetical third party"). Back To Text

[63] See In re Catapult Entertainment, Inc., 165 F.3d at 750 (addressing patent license); In re CFLC, Inc., 89 F.3d 673, 679 (concerning patent license); In re Access Beyond Tech., Inc., 237 B.R. at 48−49 (discussing patent license); In re Patient Educ. Media, Inc., 210 B.R. 237, 242 (Bankr. S.D.N.Y. 1997) (dealing with copyright license). Back To Text

[64] See 11 U.S.C. § 365 (c) (2000); see also City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534, 538 (11th Cir. 1994) (stating that "§ 365(f)(1) explicitly recognizes that § 365(c) limits a trustee's power of assignment"); Rieser v. Dayton Country Club Co. (In re Magness), 972 F.2d 689, 693 (6th Cir. 1992) (describing case where bankruptcy court found trustee barred from assigning under § 365 (c)). Back To Text

[65] 35 U.S.C. § 101 (2000). See also Dennis v. Pitner, 106 F.2d 142, 144−45 (7th Cir. 1939) (holding that Congress meant to be comprehensive and inclusive in patent) (quoting 35 U.S.C. § 101 (2000)); In re Venezia, 530 F.2d 956, 960 (C.C.P.A. 1976) (applying "inventions patentable" or 35 U.S.C. § 101 to "kits" of any interrelated parts and holding words "any manufacture" as not to be narrowly construed as to exclude said "kits"). Back To Text

[66] See 35 U.S.C. § 154 (2000).

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specifications for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

Id.; see also American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769, 777 (3d Cir. 1959) (holding that each patent gives its owner a monopoly in respect to its disclosures); Duplex Straw Dispenser Co. v. Harold Leonard & Co., 229 F. Supp. 401, 404 (S.D. Cal. 1964) (holding that where originator of device has not protected it with valid patent, copying thereof is not prohibited by law). Back To Text

[67] In re CFLC, Inc., 89 F.3d at 679 (emphasis added). See Bonito Boats, Inc. v Thunder Craft Boats, Inc., 489 U.S. 141, 150 (1989) (finding that "the novelty and non−obviousness requirements express a congressional determination that the purposes behind the Patent Clause are best served by free competition and exploitation of either that which is already available to the public or that which may be readily discerned from publicly available material"); see also Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) (stating that "the stringent requirements for patent protection seek to ensure that ideas in the public domain remain there for the use of the public"). Back To Text

[68] See Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (stating that federal rule has treated patent licenses as nonassignable unless expressly made so), cert. denied, 410 U.S. 929 (1973); see also Troy Iron & Nail Factory v. Corning, 55 U.S. 193, 197 (1852) (recognizing that patent licenses as not assignable unless expressly made so in agreement); Walter A. Wood Harvester Co. v. Minneapolis−Esterly Harvester Co., 61 F. 256, 258 (8th Cir. 1894) (discussing instance where license agreement said nothing pertaining to assignability and the Court said "I think the absence of any words of assignability in this license shows and intent to make it run to [licensees] alone, as clearly as if words of nonassignability had been incorporated therein"). Back To Text

[69] See PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093 (6th Cir. 1979) (stating that "[i]t has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so"); Unarco Industries Inc., 465 F.2d at 1306 (patent licenses are not assignable in federal court unless expressly made so); see also In re Access Beyond Tech., Inc., 237 B.R. 32, 45 (Bankr. D. Del. 1999) (stating same). Back To Text

[70] See Verson Corp. v. Verson Int'l Group PLC, 899 F. Supp. 358, 363 (N.D. Ill. 1995) ("Under well−established law the holder of a non−exclusive patent license may not assign its license unless the right to assign is expressly provided for in the license agreement"); Stenograph Corp. v. Fulkerson, 972 F.2d 726, 729 n.2 (7th Cir.) (reiterating that "[p]atent licenses are not assignable in the absence of express language"), vacated without op., 977 F.2d 585 (7th Cir. 1992); Gilson v. Republic of Ireland, 787 F.2d 655, 658 (D.C. Cir. 1986) (stating that holder of nonexclusive patent license may not assign its rights unless stated expressly in license). Back To Text

[71] See infra Section II.B.2, 3 (discussing hypothetical test for assumption and actual test for assumption); see also Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 750 (9th Cir. 1999) ("The literal language of § 365(c)(1) is thus said to establish a 'hypothetical test': a debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor in possession has no intention of assigning the contract in question to any such third party.") (emphasis added); City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534, 537 (11th Cir. 1994) (characterizing § 365(c)(1)(a) presenting "a hypothetical question") (emphasis added); In re West Elecs. Inc., 852 F.2d 79, 83 (3d Cir. 1988) (stating that "11 U.S.C. § 365(c)(1) creates a hypothetical test – i.e. under the applicable law, could the government refuse performance from "an entity other than the debtor or the debtor in possession"). Back To Text

[72] See In re Catapult Entertainment, Inc., 165 F.3d at 750 (holding that "[t]he statute by its terms bars a debtor in possession from assuming executory contracts without nondebtors' consent where applicable law precludes assignment of contracts to third parties"); In re CFLC, Inc., 89 F.3d 673 (9th Cir. 1996) (stating that "[t]he long standing federal rule of law with respect to the assignablity of patent license agreements provides they are personal to the licensee and not assignable unless expressly made so in the agreement") (quoting Unarco Indus., Inc., 465 F.2d at 1306); In re Access Beyond Tech., Inc., 237 B.R. at 38 (stating that "[licensee's] rights as patent holder are subject to the License Agreement executed by its predecessor in interest [licensor]"). Back To Text

[73] See 17 U.S.C. § 106 (2000). Under § 106 of the Copyright Act, the owner of a registered copyright has the exclusive right to do and to authorize any of the following:

1. to reproduce the copyrighted work in copies or phonorecords;
2. to prepare derivative works based upon the copyrighted works;

1. to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
2. to perform the copyrighted work publicly;

1. to display the copyrighted work publicly; and
2. to perform the copyrighted work publicly by means of a digital audio transmission.

Id. See 17 U.S.C. § 302(a) (Supp. 2000) (setting forth duration of copyrights created after January 1, 1978). Back To Text

[74] 17 U.S.C § 102(a) (2000). See Lotus Dev. Corp. v. Paperback Software Int'l, 740 F. Supp. 37, 48 (D. Mass. 1990) (finding that designation of "works of authorship" in copyright statute is not limited to traditional works of authorship such as novel or plays; rather, phrase was used to extend copyright protection to new methods of expression as they evolve); Dollcraft Indus., Ltd. v. Well−Made Toy Mfg. Co., Inc., 479 F. Supp. 1105, 1105 (E.D.N.Y. 1978) (stating there can be no copyright on an idea itself but only on the tangible expression of the idea, and thus copyright law protects an individual's concrete expression of his own idea). Back To Text

[75] In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (quoting Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984)). See also Fogerty v. Fantasy, Inc., 510 U.S. 517, 526 (1994) (discussing policies underlying Copyright Act and stating "[t]he immediate effect of our copyright law is to secure a fair return for an 'author's creative labor'") (quoting Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975)). Back To Text

[76] See 17 U.S.C. § 106 (2000) (stating that owner of the copyright under Copyright Act "has the exclusive right to do and to authorize" designated uses of copyrighted work); Landau v. Cosmetic & Reconstructive Surgery Ctr., Inc., 158 F.R.D. 117, 119 (N.D. Ill. 1994) ("[U]nder the copyright laws, only the owner of the copyright may transfer rights to copyrighted work."); In re Patient Educ. Media, Inc., 210 B.R. at 240 (stating "[o]nly the copyright owner can transfer these rights"). Back To Text

[77] Ownership of a copyright may be transferred in whole or in part. Any of the exclusive rights set forth in § 106 of the Copyright Act may be transferred and owned separately. For example, a copyright holder can grant the right to reproduce the copyrighted work, the right to distribute such reproductions, and the right to prepare derivative works based on the copyrighted work to three different entities. See 17 U.S.C. § 201 (d)(1)(2000). Back To Text

[78] 17 U.S.C. § 101 (2000) (emphasis added). See id. § 201(a)(2) (describing generally "Transfer of Ownership"); Erickson v. Trinity Theatre, Inc., 13 F.3d 1061, 1071 (7th Cir. 1994) (holding that anyone who contributes to creation of work, either as patron, employer, or contributor of ideas, may have contractual opportunity to share in profits work produces). Back To Text

[79] See 17 U.S.C. § 201(d)(2) (2000) (stating that "[t]he 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 by this title"); see also H.R. Doc. No. 94−1476, at 123 (1977), reprinted in 1976 U.S.C.C.A.N. 5659, 5739 (stating "[i]t is thus clear, for example, that a local broadcasting station holding an exclusive license to transmit a particular work within a particular geographic area and for a particular period of time, could sue, in its own name as copyright owner, someone who has infringed that particular exclusive right"); 3 Melvin B. Nimmer & David Nimmer, Nimmer on Copyrights § 10.02[A], at 10−23 (1996) [hereinafter "Nimmer"] (describing how, pursuant to § 201(d)(2) of Copyright Act, holders of exclusive copyrights are entitled to rights and remedies accorded to copyright owners). Back To Text

[80] See Warner Bros., Inc. v. Wilkinson, 533 F. Supp. 105, 108 (D. Utah 1981) (that stating "the copyright owner has the exclusive right to transfer the material for a consideration to others"); Psihoyos v. Liberation Inc., No. 96 Civ. 3609, 1997 U.S. Dist. LEXIS 5777, at *6 (S.D.N.Y. April 29, 1997) (asserting that copyright owner holds certain control over exclusive right to transfer ownership of copies by sale or transfer). See generally Goldstein v. California, 412 U.S. 546, 550 (1973) (upholding validity of California statute making it criminal offense to "pirate" recordings produced by others, activity against which copyright holder at that time had not given permission to do). Back To Text

[81] See I.A.E., Inc. v. Shaver, 74 F.3d 768, 774 (7th Cir. 1996) (considering implied nonexclusive license, where licensor−creator of the work, by granting an implied nonexclusive license, does not transfer ownership of the copyright to the licensee); In re Patient Educ. Media, Inc., 210 B.R. at 240 (asserting that copyright law differentiates between exclusive and nonexclusive licenses; further noting that "transfer[s] of copyright ownership" comprises conferring of an exclusive license, but not nonexclusive license). Back To Text

[82] See In re Patient Educ. Media, Inc., 210 B.R. at 240; see also Walthal v. Rusk, 172 F.3d 481, 486 (7th Cir. 1999) (asserting that because nonexclusive licenses are not included in definition of "transfer of copyright ownership" they may be granted orally without transferring copyright ownership). Back To Text

[83] See MacLean Assoc., Inc. v. Wm. M. Mercer−Meidinger−Hansen, Inc., 952 F.2d 769,779 (3d Cir. 1991) (noting that "nonexclusive license does not transfer ownership of the copyright from the licensor to the licensee, the licensor can still bring suit for copyright infringement if the licensee's use goes beyond the scope of the nonexclusive license"); In re Patient Educ. Media, Inc., 210 B.R. at 240 (stating that nonexclusive license does not transfer any rights of ownership because ownership stays with licensor); 3 Nimmer § 10.02[A], at 10−23. Back To Text

[84] See In re Patient Educ. Media, Inc., 210 B.R. at 240−41 (noting that licensee cannot assign it to third party without consent of copyright owner) (citing SQL Solutions, Inc. v. Oracle Corp., No. C−91−1079, 1991 WL 626458, at *6 (N.D. Cal. Dec. 18, 1991). Back To Text

[85] See In re Patient Educ. Media, Inc., 210 B.R. at 240 (citing SQL Solutions, Inc., 1991 WL 626458, at *6). Back To Text

[86] See In re Patient Educ. Media, Inc., 210 B.R. at 240−41; infra Section II.B.2, 3 (discussing hypothetical test for assumption and actual test for assumption). See generally Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc), 89 F.3d 673, 679 (9th Cir. 1996) (asserting non−exclusive licensee of patent holds personal interest, not property interest in patent); Bradley N. Raderman & John Walshe Murray, Assumption & Assignment of Patent Licenses under Chapter 11 of the Bankruptcy Code, 6 J. Bankr. L. & Prac. 513−15 (1997) (noting that bankruptcy courts have generally treated nonexclusive copyright and patent licenses as executory contracts). Back To Text

[87] See 11 U.S.C. § 365(c); In re Booth, 19 B.R. 53, 57 (Bankr. D. Utah 1982) (noting that bankrupt licensee of patent, copyright or trademark usually has executory duty to pay royalties and licensor has executory duty not to license to third parties). See generally Pacific Express Inc. v. Teknekron Infoswitch Corp., 780 F.2d 1482, 1487 (9th Cir. 1986) (employing Professor Countryman's definition of executory contract as formulated in Executory Contracts in Bankruptcy: Part I, 57 Minn. L. Rev. 439, 460 (1973)). Back To Text

[88] See In re Brand Name Prescription Drugs Antitrust Litig., 186 F.3d 781, 787 (7th Cir. 1999) (noting that rationale for trademarks is better quality control); Socony−Vacuum Oil Co. v. Oil City Refiners, Inc., 136 F.2d 470, 474 (6th Cir. 1943) (discussing prevention of unfair competition and noting that court should not lend aid to further perpetual monopolies); Schoenfeld Indus., Inc. v. Foster Indus., Inc., No. 79 Civ. 4917, 1979 U.S. Dist. LEXIS 9481, at *11−*12 (S.D.N.Y. Sept. 28, 1979) (asserting that usage of counterfeit or imitation trademarks is unlawful). Back To Text

[89] 15 U.S.C. § 1127 (2000) defines trademarks as follows:

The term "trademark" includes any word, name, symbol, or device, or any combination thereof –

(1) used by a person, or

(2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source or the goods, even if that source is unknown.

Id. Back To Text

[90] A "trade name" includes any name used by a person to identify his or her business or vocation. See 15 U.S.C. § 1127 (2000); Martahus v. Video Duplication Servs., Inc., 3 F.3d 417, 421 (Fed. Cir. 1993) (explaining that if trade name consists of mark which so resembles mark or trade name previously adopted in U.S., registration may be denied, thereby prevention public confusion or deception); National Cable Television Ass'n v. American Cinema Editors, Inc., 937 F.2d 1572, 1578 (Fed. Cir. 1991) (stating that abbreviations and nicknames of trademarks or names used only by public give rise to rights owners may protect which public modified). Back To Text

[91] Under § 1127 of the Lanham Act, the term "service marks" means:

[A]ny word, name, symbol, or device, or any combination thereof–

(1) used by a person, or

(2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown. Titles, character names, and other distinctive features of radio or television programs may be registered as service marks notwithstanding that they, or the program, may advertise the goods of the sponsor.

Id. See In re Advertising & Mktg. Dev., Inc., 821 F.2d 614, 618 (Fed. Cir. 1987) (holding that service mark registration was available to advertising services under same standard as other services); Martahus, 3 F.3d at 421 (noting that service marks resembling existing registered marks may not be registered to avoid public decption or

confusion). Back To Text

[92] See 15 U.S.C. § 1057(c) (2000) (noting that filing of application to register mark constitutes constructive use of such mark, conferring, subject to certain limitations, nationwide right of priority on or in connection with goods or services specified in registration). See generally National Cable Television Ass'n, 937 F.2d at 1578 (asserting that where public adopts 'nickname' for trade name or service mark company is still entitled to protection). Back To Text

[93] See Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 207 (1985) (asserting statutory protection for trademarks and patents is needed to safeguard goodwill of enterprise); Shakespeare Co. v. Silstar Corp. of Am., 9 F.3d 1091, 1103 (4th Cir. 1993) (discussing how patent and trademark protection protects company's goodwill and consumer recognition); Black & Decker Corp. v. International Sales & Mktg., No. CV−95−2130 JSL, 1995 U.S. Dist. LEXIS 20120, at *11−*12 (C.D. Cal. May 18, 1995) (granting injunction because defendant infringed on plaintiff's patent in attempt to benefit from their products consumer recognition); W.L. Gore & Assocs., Inc. v. Johnson & Johnson, 882 F. Supp. 1454, 1460 (D. Del. 1995) (asserting that injunctive relief is appropriate, if it may be shown that infringement would cause loss of reputation with consumers, loss of trade, and loss of goodwill). Back To Text

[94] See Interpace Corp. v. Lapp, Inc., 721 F2d 460, 462 (3d Cir. 1983) (stating that "the law of trademark protects trademark owners in the exclusive use of their marks when use by another would be likely to cause confusion"); Black & Decker Corp., 1995 U.S. Dist. LEXIS 20120, at *11−*12 (discussing defendants intent to make "knock off" product of lower quality while receiving free ride from plaintiff's investment in marketing and advertising); W.L. Gore & Assocs., 882 F. Supp. at 1457 (noting same). Back To Text

[95] 15 U.S.C. § 1114(1) (2000). Back To Text

[96] For example, if a holder fails to use its mark or to police against unauthorized use of its mark by third parties, the registered holder may be deemed to have abandoned its mark. See 15 U.S.C. § 1115 (2000) (stating that abandonment is defense to infringement action); Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 363 (2d Cir. 1959) (concluding that plaintiff did not abandon its federal registration rights; therefore, plaintiff was not estopped by reason of laches from enforcing its exclusive right to use its registered trademarks); In re Rooster, Inc., 100 B.R. 228, 234 n.14 (Bankr. E.D. Pa. 1989) (asserting that "failure to adequately control the goods produced under the mark may result in abandonment of the mark by the licensor"). Back To Text

[97] See Valley Prods. Co. v. Landmark, 128 F.3d 398, 404 (6th Cir. 1997) (asserting that patented products are essentially unique, while trademarked products are not); DeCosta v. Viacom Int'l, Inc., 981 F.2d 602, 605 (1st Cir. 1992) (stating that "[t]he laws of patents, copyright, trade secrets, trademarks, unfair competition, and misappropriation balance the conflicting interests in protection and dissemination differently in different contexts through specific rules that determine just who will receive protection, of just what kind, under what circumstances, and for how long"); Mozart Co. v. Mercedes−Benz of N. Am., Inc., 833 F.2d 1342, 1346 (9th Cir. 1987) (finding that unlike patent or copyright, which is designed to protect the uniqueness of product itself, trademark protects only name or symbol of product). Back To Text

[98] See supra note 94. Back To Text

[99] 15 U.S.C. § 1125(a)(1)(A) (2000). See TMT N. Am., Inc. v. Magic Touch GmbH, 124 F.3d 876, 882 (7th Cir. 1997) (asserting that in absence of assignment of trademark rights, foreign manufacturer holds all rights to trademark even after licensing use of trademark to exclusive U.S. distributor); Moore Bus. Forms v. Ryu, 960 F.2d 486, 489 (5th Cir. 1992) (discussing that there is no control prerequisite in event of assignment by trademark owner to another party's defined usage of trademark). See generally Sheila's Shine Prods., Inc. v. Sheila Shine, Inc., 486 F.2d 114, 124 (5th Cir. 1973) (stating that failure to supervise licensee for over ten years was not construed as abandonment of entire trademark). Back To Text

[100] For example, a trademark holder may grant an e−commerce business a license to use its trademark on the Internet. The trademark license may provide that the mark may only be used in a "non−political" manner. Assignment of such trademark license to the official web site for the Democratic or Republican party would necessarily result in an

infringing use of the trademark. See Franchised Stores of N.Y. v. Winter, 394 F.2d 664, 668 (2d Cir. 1968) (noting that sale by licensee of products outside scope of license was trademark infringement, because such activity could confuse public into thinking trademark owner authorized them); E.G.L. Gem Lab Ltd. v. Gem Quality Inst., Inc., No. 97 Civ. 7102, 1998 U.S. Dist. LEXIS 8678, at *6 (S.D.N.Y. June 12, 1998) (claiming that sublicensing of trademarks beyond scope of license granted by trademark agreement constituted trademark infringement). But see Sheila's Shine Prod., Inc., 486 F.2d at 124 (explaining that failure to control or supervise for extended period may estop trademark owner from challenging use of mark and business which licensee has developed during period of such unsupervised use). Back To Text

[101] See In re Superior Toy & Mfg. Co., Inc., 78 F.3d 1169, 1176 (7th Cir. 1996) (finding that exclusive non−transferable license to distribute toys using "Cherub Collection" trademark was assumed); In re Rooster, Inc., 100 B.R. at 229 (concluding that exclusive sublicensing agreement to use Bill Blass trade name and trademark on debtor's neckties was not "personal services contract" which could not be assumed or assigned under § 365(c)). Back To Text

[102] See 11 U.S.C. § 362(d)(1) (2000). See, e.g., In re B−K of Kansas, Inc., 69 B.R. 812, 815 (Bankr. D. Kan. 1987) (granting relief from stay after debtor failed to make post−petition royalty payments). Back To Text

[103] See Ford Motor Co. v. Claremont Acquisition Corp., Inc. (In re Claremont Acquisition Corp., Inc.), 186 B.R. 977 (C.D. Cal. 1995); In re Independent Management Assocs., Inc., 108 B.R. 456 (Bankr. D.N.J. 1989); In re Specialty Foods of Pittsburgh, Inc., 91 B.R. 364 (Bankr. W.D. Pa. 1988). Back To Text

[104] In re Access Beyond Tech., Inc., 237 B.R. 32, 48 (Bankr. D. Del. 1999). See Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 749−50 (9th Cir. 1999); City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534, 537 (11th Cir. 1994); In re West Electronics, Inc., 852 F.2d 79, 83 (3d. Cir. 1988); Breeden v. Catron (In re Catron), 158 B.R. 629, 633−38 (E.D. Va. 1993), aff'd without op., 25 F.3d 1038 (4th Cir. 1994). Back To Text

[105] The United States Supreme Court has indicated in a series of decisions that when the statute speaks clearly, and its plain language does not produce a patently absurd result or contravene any clear legislative history, the plain meaning of the Bankruptcy Code should govern the interpretation of the statute. See Patterson v. Shumate, 504 U.S. 753, 760 (1992) (stating that given clarity of statutory text, party seeking to defeat plain meaning of Bankruptcy Code bears an "exceptionally heavy burden"); Barnhill v. Johnson, 503 U.S. 393, 401 (1992) (directing that statutory history is only consulted when there is statutory ambiguity); Connecticut Nat'l Bank v. Germain, 503 U.S. 249, 253−54 (1992) (stating that "[w]e have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there"); Union Bank v. Wolas, 502 U.S. 151, 158 (1991) (recognizing that "[t]he fact that Congress may not have foreseen all of the consequences of a statutory enactment is not a sufficient reason for refusing to give effect to its plain meaning"); Toibb v. Radloff, 501 U.S. 157, 164 (1991); United States v. Ron Pair Enters., Inc., 489 U.S. 235, 246 (1989) (finding "no reason to suspect that Congress did not mean what the language of the statute says"). Back To Text

[106] In re Catapult Entertainment, Inc., 165 F.3d 747, 754 (9th Cir. 1999). Back To Text

[107] See, e.g., Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493 (1st Cir. 1997); Summit Inv. & Dev. Corp. v. Leroux, 69 F.3d 608, 612 (1st Cir. 1995); In re Cardinal Indus., Inc., 116 B.R. 964, 982 (Bankr. S.D. Ohio 1990). Back To Text

[108] Summit Inv. & Dev. Corp., 69 F.3d at 613 (citing H.R. Rep. No 1895, at § 27(b) (1980)); Institut Pasteur, 104 F.3d at 493. Back To Text

[109] See In re Catapult Entertainment, Inc., 165 F.3d at 754 (opining that actual test requires courts to rewrite § 365(c)). Back To Text

[110] See, e.g., In re Cardinal Indus., Inc., 116 B.R. at 976−77. Back To Text

[111] In re Catapult Entertainment, Inc., 165 F.3d at 754 (quoting Rieser v. Dayton Country Club Co. (In re Magness), 972 F.2d 689, 695 (6th Cir. 1992)). Back To Text

[112] See id.; see also City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.), 27 F.3d 534 (11th Cir. 1994); In re Lil' Thing, Inc., 220 B.R. 583, 589 (Bankr. N.D. Tex. 1998) (relating § 365(c)(1) applies where "the identity of the debtor is a material condition of the contract when considered in the context of the obligations which remain to be performed") (quoting In re Antonelli, 148 B.R. 443, 448 (Bankr. D. Md. 1992), aff'd. without op., 4 F.3d 984 (4th Cir. 1993)). Notably, "applicable law" under Bankruptcy Code § 365(c)(1) refers to laws, such as the intellectual property laws and common law related thereto discussed in detail above, that bar assignment even when the contract itself is silent on the issue of assignment. See In re Lil' Thing, Inc., 220 B.R. at 588−89. This proposition is confirmed by the legislative history to section 365(c)(1), which provides as follows:

This prohibition applies only in the situation in which applicable law excuses the other party from performance independent of any restrictive language in the contract or lease itself.

H.R. Rep. No. 95−595, at 348 (1977); S. Rep. No. 95−989, at 59 (1978). Back To Text

[113] 104 F.3d 489 (1st Cir. 1997). Back To Text

[114] See id. at 493. Back To Text

[115] Courts are reluctant to confirm a chapter 11 plan if the purpose of such plan is merely a guise for transferring a debtor's intellectual property rights without the consent of the licensor. If there is no possibility of reorganization of the debtor's business or financial affairs, the debtor in possession or trustee may not be permitted to assume or assign an intellectual property license under a liquidating plan over the objection of the licensor. See In re Alltech Plastics, Inc., 71 B.R. 686, 689−90 (Bankr. W.D. Tenn. 1987) (holding that trustee could not assign patent license without consent of licensor); see also Institut Pasteur, 104 F.3d at 495 n.12 (suggesting that assumption would not be permissible if debtor had ceased operating its business and liquidated its estate); In re Cardinal Indus., Inc., 116 B.R. at 982 (discussing outcome if there is change in one of parties to partnership agreement over objections by other party). Back To Text

[116] 104 F.3d 489 (1st Cir. 1997). Back To Text

[117] See id. at 494 (discussing transfer of license without consent when no clause limits who may be in control); see also Weaver v. Nizny (In re Nizny), 175 B.R. 934, 938−39 (Bankr. S.D. Ohio 1994) (discussing assignment of intellectual property license over objection of other party to license), In re Cardinal Indus., Inc., 116 B.R. at 981 (discussing assignment over objection of non−debtor to original agreement). Back To Text

[118] See 11 U.S.C § 365(e)(1) (2000) (nullifying effect of ipso facto clause in executory contracts upon happening of bankruptcy proceedings); see also Summit Inv. & Dev. Corp. v. Leroux, 69 F.3d 608, 614 (1st Cir. 1995) (holding that § 365(e) preempts enforcement of ipso facto termination provisions): Robert J. Verga, Note, Section 365 versus 362: Applying the Automatic Stay To Prevent Unilateral Termination in a Bankruptcy Setting, 61 Fordham L. Rev. 935, 947 (1993) (discussing prohibition of ipso facto clauses). Back To Text

[119] See Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 753 n.6 (9th Cir. 1999) (discussing § 365(e)(2) and effect on ipso facto clauses); In re Nizny, 175 B.R. at 938 (discussing § 365(e)(2) and ipso facto clauses); Summit Inv. & Dev. Corp., 69 F.3d at 612 (discussing overlapping subject area of §§ 365(e)(2) and 365(c)(1) with regards to ipso facto clauses); In re Cardinal Indus., Inc., 116 B.R. at 982 (explaining that § 365(e)(2) is exception to ipso facto invalidation and such clause is ineffective if contract is not assignable or assumable). See generally 3 Collier, supra note 12, ¶ 365.07[1], at 365−67 (stating that "§ 365(e)(2) provides that the invalidation of ipso facto clauses does not apply to contracts or leases that are nonassignable under applicable nonbankruptcy law"). Back To Text

[120] 11 U.S.C. § 365(e)(2) (2000) (providing exceptions to § 365(e)(1) which prohibit ipso facto clauses). See Summit Inv. & Dev. Corp., 69 F.3d at 611−12 (discussing how § 356(e)(2) should be construed and read by courts); In re Nizny, 175 B.R. at 938 (discussing application of § 365(e)(2)). Back To Text

[121] See In re Nizny, 175 B.R. at 938 (discussing similarity of philosophy between sections of Bankruptcy Code); Verga, supra note 118, at 937, 946 (noting similarity of language in both statutes). See generally 3 Collier, supra note 12, ¶365.07[1], at 365−68 (stating that "[i]t appears that there was no intention to distinguish substantially between § 365(c), describing when the trustee is barred from assuming or assigning a contract, and § 365(e), describing when a contractual termination clause may be given"). Back To Text

[122] See Institut Pasteur v. Cambridge Biotech Corp. 104 F.3d 489, 493 (1st Cir. 1997) (following actual performance test); Summit Inv. & Dev. Corp., 69 F.3d at 612−13 (adopting actual test which looks to actual consequences to non−debtor party if executory contracts are performed after debtor files for bankruptcy); In re Cardinal Indus., Inc., 116 B.R. at 976−82 (rejecting hypothetical test). Back To Text

[123] In re Cardinal Indus., Inc., 116 B.R. at 982 (analyzing how courts construe relationship between two sections of Bankruptcy Code). Back To Text

[124] See In re Cardinal Indus., Inc., 116 B.R. at 981 (discussing actual test and interaction with ipso facto clauses); see also In re Nizny, 175 B.R. at 938 (following rationale of court in deciding In re Cardinal regarding enforcability of ipso facto clauses); Verga, supra note 118, at 947 (discussing when ipso facto clauses will not be enforced). Back To Text

[125] See Computer Communications, Inc. v. Codex Corp. (In re Computer Communications, Inc.), 824 F.2d 725, 730 (9th Cir. 1987) (holding that automatic stay is applicable); In re Cardinal Indus., Inc., 116 B.R. at 971 (discussing treatment of automatic stay). But see Watts v. Pennsylvania Hous. Fin. Co. (In re Watts), 876 F.2d 1090, 1096 (3d Cir. 1989) (automatic stay does not apply to post−petition termination of executory contract to make a loan which was expressly permitted under Bankruptcy Code § 365(e)(2)(B)). See generally Verga, supra note 118, at 948−58 (analyzing treatment of automatic stay with regards to executory contracts in various court decisions). Back To Text

[126] 11 U.S.C. § 365(n)(1)(2) (2000) (giving licensee option to treat executory contract as terminated or to retain rights in existence before rejection by debtor/trustee). See also In re El Int'l, 123 B.R. 64, 65 (Bankr. D. Idaho 1991) (discussing rights of licensee of intellectual property following rejection of executory contract by debtor/trustee); Robert T. Canavan, Comment, Unsolved Mysteries of Section 365(n)− When a Bankrupt Technology Licensor Rejects An Agreement Granting Rights To Future Improvements, 21 Seton Hall L. Rev. 800, 811−13 (1990) (discussing rights of licensee with intellectual property license); John J. Fry, Note, The Rejection of Executory Contracts Under the Intellectual Property Bankruptcy Protection Act of 1988, 37 Clev. St. L. Rev. 621, 622, 639 (1989) (discussing effect of § 365(n) on licensee of intellectual property license). Back To Text

[127] 756 F.2d 1043 (4th Cir. 1985) (permitting debtor−licensee to reject technology license agreement). See also Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.), 109 B.R. 557, 560 (Bankr. D.R.I. 1990) (allowing debtor to reject license agreement pursuant to business judgment standard); In re Logical Software, 66 B.R. 683, 687 (Bankr. D. Mass. 1986) (allowing rejection of executory license contract by debtor which resulted in ruin of licensee). Back To Text

[128] See In re Richmond Metal Finishers, Inc., 756 F.2d at 1048 (holding that licensee only has breach of contract claim as basis for damages); see also Tamietti, supra note 33, at 298−89 (explaining that rejection of executory license agreement leaves licensee with unsecured claim for damages arising out of debtor's breach); Canavan, supra note 126, at 806 (explaining that prior to enactment of § 365(n) when debtor rejected executory agreement that licensee's rights were transformed to mere unsecured damage claim against debtor); John P. Musone, Note & Comment, Crystallizing the Intellectual Property License in Bankruptcy Act: A Proposed Solution to Achieve Congress' Intent, 13 Bankr. Dev. J. 509, 512−13 (1997) (discussing ramifications to licensee prior to enactment of § 365(n) when debtor/trustee rejected license agreement); Noreen M. Wiggins, Note, The Intellectual Property Bankruptcy Protection Act: The Legislative Response to Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 16 Rutgers Computer & Tech.

L.J. 603, 604 (1990) (discussing remedies left to licensee following debtor's rejection of license prior to enactment of § 365(n)). Back To Text

[129] See, e.g., Encino Bus. Management, Inc. v. Prize Frize, Inc. (In re Prize Frize, Inc.), 32 F.3d 426, 428 (9th Cir. 1994) (explaining that "[s]ection 365(n) has struck a fair balance between the interests of the bankrupt and the interests of a licensee of the bankrupt's intellectual property"); Novon Int'l v. Novamont S.P.A. (In re Novon Int'l), No. 98−CV−0677E, 2000 U.S. Dist. LEXIS 5169, at *14 (W.D.N.Y. March 31, 2000) (explaining that § 365(n) was designed by legislature to balance interests of both licensee and bankrupt licensor); Marjorie F. Chertok, Structure License Agreements with Companies in Financial Difficulty. Section 365(n)− Divining Rod or Obstacle Course, 65 St. John's L. Rev. 1045, 1045 (1991) ("The purpose of the Act [§ 365(n)] was to protect licensees from loss of their vested research, development, manufacturing, and marketing interest in intellectual property when a licensor files a petition for relief under the U.S. Bankruptcy Code."); Canavan, supra note 126, at 830 (stating that "Congress' purpose in enacting the IPLBA [§ 365(n)] was to enhance American licensing law by making the outcome of a licensor's bankruptcy both fair and predictable"); Fry, supra note 126, at 640−41 (discussing balancing of rights between bankrupt licensor and licensee of intellectual property); Musone, supra note 128, at 535−36 (discussing legislative intent behind addition of § 365(n) to bankruptcy law). Back To Text

[130] In re Prize Frize, Inc., 32 F.3d at 428 (explaining effect of § 365(n) on protection of rights of both licensee and licensor). Back To Text

[131] 11 U.S.C. § 365(n) (2000). The text of § 365(n) of the Bankruptcy Code in its entirety is annexed to this Article as an addendum. Back To Text

[132] See discussion infra Section II.D.2 (discussing meaning of intellectual property). Back To Text

[133] 11 U.S.C. § 365(n)(1) (2000) (laying out guidelines regarding what licensee may do in event that debtor rejects executory license agreement); see also Chertok, supra note 129, at 1055 (discussing choice provided to licensor by statute); Fry, supra note 126, at 623−24 (outlining options of licensee under § 365(n)); Wiggins, supra note 128, at 623−24 (discussing rights of licensee upon debtor's rejection of license for intellectual property). Back To Text

[134] 11 U.S.C. § 365(n)(1)(A) (2000) (laying out option of licensee to terminate license agreement). See, e.g., In re El Int'l, 123 B.R. 64, 66 (Bankr. D. Idaho 1991) (outlining licensee's right to reject license upon bankruptcy of licensor); Musone, supra note 128, at 513 (recognizing licensee's right to reject license). Back To Text

[135] See generally In re El Int'l, 123 B.R. at 66−67 (explaining that once licensee rejects license under § 365(n)(1)(A) that he has same claim against licensor as if licensor initially rejected); Stuart S. Moskowitz, Intellectual Property Licenses in Bankruptcy: New "Veto Power" for Licensees Under Section 365(n), 44 Bus. Law. 771 (1989) (explaining that if licensee rejects and terminates license agreement they have breach of contract claim and are like every other unsecured creditor); Musone, supra note 128, at 513 (discussing licensee's rights to claim after they reject license). Back To Text

[136] See 11 U.S.C. § 365(n)(1)(B) (2000) (allowing licensee to retain rights under agreement and outlining rights and duties of licensee if they choose this option). See, e.g., Licensing by Paolo v. Sinatra (In re Gucci), 126 F.3d 380, 394 (2d Cir. 1997) (reading § 365(n) as allowing licensee to retain certain rights dispite rejection of license by licensor); Moskowitz, supra note 135, at 771 (explaining what licensee must do if they retain their rights); Wiggins, supra note 128, at 624−26 (discussing licensee's choice to retain rights to intellectual property and scope and limitations upon those rights). Back To Text

[137] See 11 U.S.C. § 365(n)(1)(B), (n)(2)(A), (n)(3)(B) (1994) (describing obligations imposed by Code on rejecting licensor with respect to agreement under which licensee opts to retain its rights); see also 2 Norton Bankr. L. & Prac.2d § 39:57 (William L. Norton, Jr. et al. eds., 2d ed. 1997) (clarifying that, although Code protects licensee's rights to intellectual property which is subject of rejected agreement, it does not require rejecting debtor−licensor to perform any post−petition affirmative obligations, such as defending licensor's patent against infringement claims), David S. Kupetz, Intellectual Property Issues in Chapter 11 Bankruptcy Reorganization Cases, 42 J. Copyright Soc'y

U.S.A. 68, 80−81 (1994) (suggesting that, in drafting contract, licensee should seek both to create disincentives for rejection of agreement as executory contract and create protections should rejection occur). Back To Text

[138] For licensees who made substantial pre−petition advances on royalty payments, the loss of the right to set off its future royalty obligations against such prepaid royalties may be significant. However, under the doctrine of recoupment, a creditor may assert countervailing claims against the debtor's claim, but only if both claims arise out of the same transaction. See Newbery Elec. Inc. v. MCI Constructors, Inc. (In re Newbery Corp.), 145 B.R. 998, 1001 (B.A.P. 9th Cir. 1992) (positing that recoupment doctrine has traditionally operated as exception to bankruptcy rule on setoffs), prior opinion withdrawn and appeal dismissed as moot, 161 B.R. 999 (9th Cir. 1994); see also 11 U.S.C. § 365(n)(2)(C)(i) (1994) (providing that electing licensee is deemed to have waived any right of setoff it may have had with respect to contract under Code or any applicable nonbankruptcy law); In re El Int'l, 123 B.R. at 66 (stating that intellectual property licensee opting to retain its rights after rejection by licensor must continue to make all royalty payments); David S. Kupetz, The Bankruptcy Code Is Part of Every Contract: Minimizing the Impact of Chapter 11 on the Non−Debtor's Bargain, 54 Bus. Law. 55, 85 n.124 (1998) (explaining that, when right of setoff is lost, damage claim born of breach of contract is considered pre−petition unsecured claim, and licensee's royalty obligation is not reduced dollar−for−dollar). Back To Text

[139] See 11 U.S.C. § 365(n)(2) (1994) (providing that electing licensee shall be deemed to have waived any claim permitted under § 503(b) arising from performance of contract); id. § 503(b) (allowing payment of certain post−petition expenses and fees after notice and hearing by court); see also Andrew M. Kaufman, Article, Technology Transfers and Insolvency−Some Practical Considerations, 10 No. 9 Computer Law. 21, 25(1993) (stating that electing licensee waives any claim for administrative expenses in bankruptcy estate). Back To Text

[140] H.R. Rep. No. 1012, at 9 (1988) (outlining general approach to assessing whether particular transaction is "royalty payment" under Code). Back To Text

[141] 150 B.R. 456 (B.A.P. 9th Cir. 1993), aff'd, 32 F.3d 426 (9th Cir. 1994). Back To Text

[142] Id. at 460; see Microsoft Corp. v. DAK Indus., Inc. (In re DAK Industries), 66 F.3d 1091, 1096 n.3 (9th Cir. 1995) (noting that term "royalty payments" is interpreted broadly to assist estate in obtaining full payment from licensing of debtor's intellectual property); David S. Kupetz, Feature, Beware When Dealing with Licensors of Intellectual Property: Avoiding Potential Pitfalls Facing Licensees and Lenders When Bankruptcy Intervenes, 17 No. 1 Computer Law. 21, 24 (2000) (discussing Prize Frize decision, and suggesting alternative drafting measures aimed at maximizing protections available under Code to intellectual property licensees). Back To Text

[143] In re Prize Frize Inc., 150 B.R. at 460. Back To Text

[144] Encino Bus.Management, Inc. v. Prize Frize, Inc.(In re Prize Frize, Inc.), 32 F.3d 426, 429 (9th Cir. 1994). Back To Text

[145] Id. (indicating that neither bankruptcy court nor Bankruptcy Appellate Panel had considered issue as it had not been raised at appropriate time by Encino). See also Chertok, supra note 129, at 1068 (arguing that, because Code imposes no requirement on licensor to perform affirmative obligations under rejected contract, licensor may use its leverage to secure financial concessions from licensee in exchange for future performance of these obligations). See generally, Drafting Suggestions, Maximizing Protections Available Under 365(N) for Intellectual Property Licenses, 16 No. 9 e−Commerce 4 (2000) (suggesting that licensee protect itself by contracting in advance for reduced royalty obligation in event licensor rejects agreement and fails to perform collateral obligations such as maintenance and technical training). Back To Text

[146] See 11 U.S.C. § 365(n)(3) (2000) (describing obligations of licensor after electing licensee requests access to intellectual property provided for in rejected contract); In re El Int'l, 123 B.R. 64, 66 (Bankr. D. Idaho 1991) (asserting that licensee opting to retain its rights under rejected contract must notify trustee in writing of its desire for access to intellectual property at issue); 3 Collier, supra note 12, ¶ 365.14[1][b], at 365−87 to 365−88 (stating that, upon written request from electing licensee, trustee is required to furnish licensee with any intellectual property

provided for under agreement). Back To Text

[147] See In re Ron Matusalem & Matusa of Fla., Inc., 158 B.R. 514, 521 (Bankr. S.D. Fla. 1993) (explaining that under "[s]ection 365(n) . . . if an executory contract under which the debtor is licensor of intellectual property is rejected, the licensee may retain its rights as they existed before the case began"); In re Szombathy, Bankruptcy Nos. 94 B 15536, 95 A 01035, 1996 WL 417121, at *11 (Bankr. N.D. Ill. July 9, 1996) (holding that licensee had right to any embodiment of licensor's intellectual property which existed on day of bankruptcy petition filing), rev'd in part, No. 97 C 481, 1997 WL 189314, at *3 (Bankr. N.D. Ill. April 14, 1997); see also Marcia Landweber Goldstein, Bankruptcy Considerations, Q176 ALI−ABA 189, 217 (1989) (confirming that statute protects licensee's right to intellectual property as it existed at time petition was filed). Back To Text

[148] See 11 U.S.C. § 365(n)(1)(B) (1994) (denying electing licensee any other right under applicable nonbankruptcy law to specific performance under rejected contract); see also David S. Kupetz, Intellectual Property Issues in Chapter 11 Bankruptcy Reorganization Cases, 35 Idea J. L. & Tech. 383, 391 (asserting that rights retained by licensee do not include right to specific performance under contract, except for right to enforce any exclusivity provision of agreement); Jeffrey W. Levitan, Bankruptcy Issues in IP Transactions, 519 PLI/Pat 189, 220−21(1998) (noting that licensee is not entitled to any right of specific performance on part of trustee or licensor). Back To Text

[149] See Ann Livingston and Leif M. Clark, Technology Transfers: What if the Other Party Files Bankruptcy?, 21 St. Mary's L.J. 173, 193 (1989) (asserting that once licensee elects to retain its rights pursuant to § 365(n), "[t]here is no surviving right to upgrades, improvements, completed prototypes, or finished products made after the bankruptcy filing"); Kenneth N. Klee, Isaac M. Pachulski and David Fuller, The Effect of Bankruptcy on Intellectual Property Rights, SD24 ALI−ABA 69, 74 (1998) (remarking that licensee's option to retain rights under software license may represent hollow victory if software is subsequently rendered obsolete by post−petition upgrade to which protection of § 365(n) does not extend). But see Canavan, supra note 126, at 830 (arguing that licensor improvement clauses merely grant rights to licensee in licensor's post−petition, on−going research, would require no affirmative performance on part of licensor which would defeat statutory purpose, and, therefore, should be enforceable after bankruptcy case commences). Back To Text

[150] 11 U.S.C. § 101(35A) (1994) (providing definition of "intellectual property" under Code); see also Patrick Law, Intellectual Property Licenses and Bankruptcy−Has the IPLBA Thawed the "Chilling Effects" of Lubrizol v. Richmond Metal Finishers?, 99 Com. L.J. 261, 265 (1994) (observing that definition is broad, and intended by Congress to be construed liberally by courts in effort to restore certainty to and confidence in intellectual property licensing). But see Cloyd v. GRP Records, 238 B.R. 328, 335 (Bankr. E.D. Mich. 1999) (declining to extend definition of intellectual property to recording artist against whom creditor record company sought injunction). Back To Text

[151] See Licensing by Paolo, Inc. v. Sinatra (In re Gucci), 126 F.3d 380, 394 (2d Cir. 1997); Richard Lieb, supra note 22, at 37−38 (finding that Congress intentionally withheld statutory protection from trademark license agreements, despite Senate Report expressing concern that trademark licensees could forfeit executory trademark license through § 365(n) rejection by licensor−debtor). But see Stuart M. Riback, The Interface of Trademarks and Bankruptcy, 6 No. 6 J. Proprietary Rts. 2 (1994) (reasoning that Congress merely deferred temporarily consideration of trademark license vulnerability, and that legislative history reveals keen sensitivity to issue, as evidenced by efforts to encourage courts to develop equitable solutions). Back To Text

[152] See S. Rep. No. 100−505, at 5 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3204 (describing basis for legislature's decision to exclude trademarks from definition of intellectual property); see also Anthony Giaccio, The Effect of Bankruptcy on the Licensing of Intellectual Property Rights, 2 Alb. L. J. Sci. & Tech. 93, 108−09 (1992) (observing that opponents of including trademarks in definition of intellectual property feared such inclusion might too liberally extend protection afforded by § 365(n), thereby creating right of election for any retail franchise owning trademark). But see David M. Jenkins, supra note 34, at 165 (rejecting as uncompelling Congress' rationale for opting not to define trademarks as intellectual property, and urging amendment which would extend protection of § 365(n) to such property). Back To Text

[153] See, e.g., Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.), 109 B.R. 557, 560 (Bankr. D.R.I. 1990) (declining to apply § 365(n) analysis, and upholding licensor−debtor's rejection of executory trademark license under business judgment rule). Back To Text

[154] 158 B.R. 514 (Bankr. S.D. Fla. 1993). Back To Text

[155] Id. at 519. Back To Text

[156] Id. at 522 (striking down debtor's rejection of executory license and trademark agreement on basis of poor business judgement and bad faith, while neglecting to pass upon applicability of § 365(n) to trademarks as intellectual property. See generally Stuart M. Riback, The Interface of Trademarks and Bankruptcy, 6 No. 6 J. Proprietary Rts. 2 (1994) (cautioning that, despite fact that Matusalem opinion seems encouraging to trademark licensees whose licensors move to reject their underlying agreement, alternative grounds existed upon which court might have held as it did and facts of case were highly unusual). Back To Text

[157] See 11 U.S.C. § 363(b)(1) (1994) (authorizing trustee, after notice and hearing, to use, sell, or lease property of estate); Otto Preminger Films, Ltd. v. Qintex Entertainment, Inc. (In re Qintex Entertainment, Inc.), 950 F.2d 1492, 1497 (9th Cir. 1991) (holding that actor George C. Scott had substantially fulfilled his acting obligations under four television contracts at issue rendering them non−executory, and that these now executed contracts along with remaining distribution rights were property of debtor's estate which could properly be sold pursuant to § 363 of Code); see also Black's Law Dictionary 323 (6th ed. 1991) (defining "executory contract" as one under which "some future act is to be done . . .," and "executed contract" as one "where the transaction is completed"). Back To Text