

# **IP Licensing & Bankruptcy:**

## ***An Issue Spotting Checklist for Analyzing Questions Regarding Assumption, Rejection, and/or Assignment of IP Licenses in Bankruptcy***

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# **IP LICENSING & BANKRUPTCY: AN ISSUE SPOTTING CHECKLIST**

- A. **FIRST QUESTION:** IS THE DEBTOR THE LICENSOR OR LICENSEE OF THE IP?
- B. **KEY FOLLOW-UP QUESTIONS** (REGARDLESS OF WHETHER THE DEBTOR IS LICENSOR OR LICENSEE):
1. WHAT TYPE OF IP IS AT ISSUE (*i.e.*, <sup>TM</sup>, PATENT, ©, KNOW-HOW, SOFTWARE)? IS IT CODE-DEFINED “INTELLECTUAL PROPERTY” [SEC. 101(35) (A)]?
  2. IS THE CONTRACT EXECUTORY OR NOT?
    - a) WAS IT A SALE INSTEAD OF A LICENSE?
    - b) ARE THE SO-CALLED “EXECUTORY” PROVISIONS MORE IN THE NATURE OF CONDITIONS THAN IN THE NATURE OF AFFIRMATIVE DUTIES OF PERFORMANCE?
  3. IS THE LICENSE EXCLUSIVE OR NON-EXCLUSIVE?
  4. IS RECORDATION OF THE LICENSE REQUIRED WITH THE USPTO OR COPYRIGHT OFFICE TO PERFECT ONE’S IP RIGHTS?
  5. DOES ANY PARTY HOLD A SECURITY INTEREST IN THE LICENSE, AND IS IT VALIDLY PERFECTED? ARE THERE VALUATION OR ADEQUATE PROTECTION ISSUES OF CONCERN?
  6. IS THE IP “PROPERTY OF THE ESTATE” OR HAS IT BEEN PLACED IN A TRUST (*e.g.*, A “SPECIAL PURPOSE ENTITY”)?
  7. WHAT CLAIMS OR CAUSES OF ACTION (LEGAL OR EQUITABLE) DO THE DEBTOR AND NON-DEBTOR POTENTIALLY HAVE AGAINST THE OTHER (INCLUDING POTENTIAL AVOIDANCE ACTIONS BY THE DEBTOR)?

**c. QUESTIONS SPECIFIC TO THE DEBTOR AS LICENSEE:**

- 1. DOES THE LICENSE CONTAIN AN EXPRESS RESTRICTION ON ASSIGNMENT?**
- 2. IS THERE AN *IPSO FACTO* CLAUSE THAT TERMINATES THE AGREEMENT UPON A BANKRUPTCY FILING?**
- 3. IF THE DEBTOR SEEKS TO ASSUME A LICENSE WITHOUT THE LICENSOR'S CONSENT, WILL THE COURT ADOPT THE "HYPOTHETICAL" TEST OF THE 3<sup>RD</sup>, 4<sup>TH</sup>, 5<sup>TH</sup>, 9<sup>TH</sup>, & 11<sup>TH</sup> CIRCUITS (*I.E.*, LICENSE NOT ASSUMABLE IF APPLICABLE NON-BANKRUPTCY LAW PRECLUDES ASSIGNMENT) OR "ACTUAL" TEST OF THE 1<sup>ST</sup> CIRCUIT (*I.E.*, LICENSE CAN BE ASSUMED IF NO ASSIGNMENT IS CONTEMPLATED)? CONSIDER IN THIS ANALYSIS WHETHER THE LICENSE IS EXCLUSIVE OR NON-EXCLUSIVE.**
- 4. IF THE DEBTOR CAN ASSUME THE LICENSE UNDER APPLICABLE NON-BANKRUPTCY LAW AND FURTHER SEEKS TO ASSIGN IT:**
  - a) DOES APPLICABLE FEDERAL OR STATE NON-BANKRUPTCY LAW PERMIT SUCH ASSIGNMENT?**
  - b) DOES APPLICABLE BANKRUPTCY LAW PERMIT SUCH ASSIGNMENT (*e.g.*, ARE THERE ANY ARREARAGES OR OTHER MATERIAL BREACHES THAT NEED TO BE CURED; CAN ADEQUATE ASSURANCE OF FUTURE PERFORMANCE BE PROVIDED; HOW ENFORCEABLE IS AN "*IPSO FACTO*" CLAUSE)?**
- 5. HAS THE DEBTOR EXERCISED APPROPRIATE "BUSINESS JUDGMENT" IN DETERMINING TO ASSUME OR REJECT THE LICENSE? IS HEIGHTENED SCRUTINY WARRANTED BECAUSE THE TRANSACTION IS WITH AN INSIDER?**
- 6. WHAT'S THE TIMING OF THE DECISION TO ASSUME OR REJECT THE LICENSE, AND CAN OR SHOULD THAT DECISION BE ACCELERATED?**
- 7. IS THE DEBTOR CONTINUING TO USE (AND PAY FOR) THE IP DURING THE POSTPETITION PERIOD?**

**D. QUESTIONS SPECIFIC TO THE DEBTOR AS LICENSOR:**

- 1. IS THE IP COVERED BY THE SPECIAL PROVISIONS OF BANKRUPTCY CODE SECTION 365(N) (*e.g.*, PATENTS ARE COVERED; TRADEMARKS AREN'T)?**
- 2. WHAT IS THE NATURE AND SCOPE OF THE EXISTING LICENSED IP RIGHTS AS OF THE CASE FILING?**
- 3. WHAT IMPROVEMENTS, IF ANY, ARE CONTEMPLATED IN RESPECT OF THE IP, AND WHAT'S THE LICENSE WORTH IF THOSE IMPROVEMENTS AREN'T AVAILABLE?**
- 4. IS THE LICENSEE BETTER OFF TREATING THE LICENSE AS REJECTED GIVEN THE LIMITATIONS ON RIGHTS TO IMPROVEMENTS AND THE REQUIREMENT THAT THE LICENSEE WAIVE CLAIMS AND SETOFF RIGHTS?**